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THESIS

Trends in Marketing Channels for Candy

by
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(A.B. Brown University 1939)

submitted in partial fulfillment of
the requirements for the degree of

MASTER OF BUSINESS ADMINISTRATION

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Chapter 1

Economics of the Industry

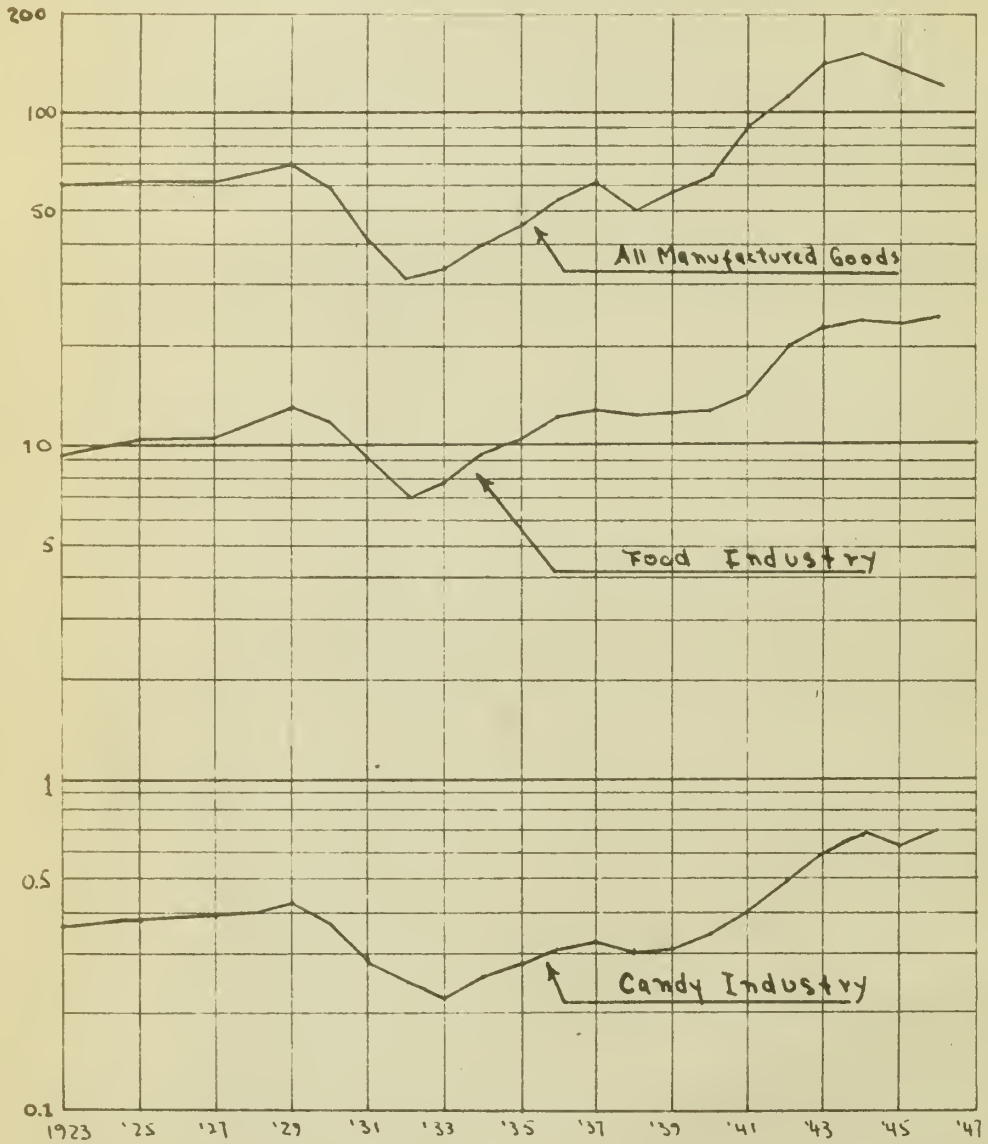
Considerable literature exists, some of which is listed in the bibliography of this paper, on the history, composition, and manufacturing of candy. The trade journals of the industry devote a substantial part of each issue to descriptions of new methods for candy manufacture, plant lay-out, sanitation and packaging. Characteristically such aspects of the business, which lend themselves to objective treatment and analysis receive somewhat more attention than the intangibles, such as marketing.

It is the purpose of this paper to examine the problems connected with the marketing of candy, to discuss the factors bearing on choice of marketing channels, the marketing functions to be performed, and finally to analyze the methods by which candy is now marketed. Trends in the marketing structure itself will be discussed, as well as trends in retailing which may lead to changes in the distribution pattern. In each case, an attempt will be made to analyze the factors giving rise to such trends, to determine their direction, and to evaluate the possibilities of a reversal or continuation of the trend.*

* Analysis of this type is best made by graphic means. Statistical tables supporting each chart will be found in the Appendix, together with complete sources. Tables are numbered to correspond with charts: e.g., Table 1 contains statistical data for Fig. 1.

VALUE OF PRODUCTION[1]: 1923 THRU 1946 —
ALL MANUFACTURED GOODS,
TOTAL FOR FOOD INDUSTRY,
TOTAL FOR CANDY INDUSTRY.

[1] MANUFACTURERS' PRICES - WITHOUT SEASONAL ADJUSTMENT
(Billions of dollars)



Source: Census of Manufactures.
Survey of Current Business.

Fig. 1

While an appreciation of the economic aspects of the candy industry may not lead to a solution of its marketing problems, a study of this larger picture does provide a background, and frame of reference, within which the specific distribution task may be discussed.

1. Value of Products

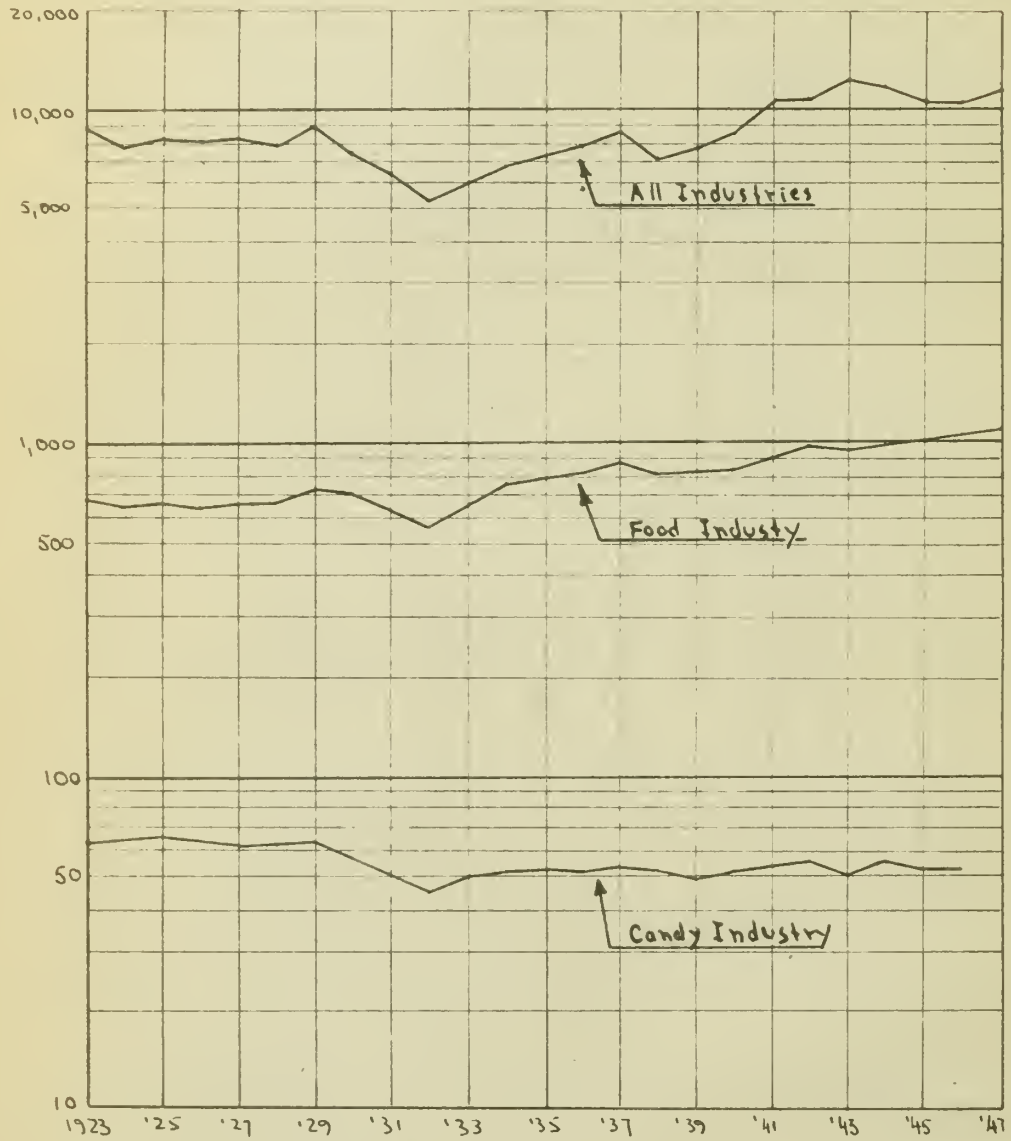
The position of the candy industry within the total United States economy is indicated by the following charts showing the value of production (Fig. 1.) and the number of wage earners (Fig. 2.), as compared with the food industry, and total for all manufactures. The dollar value of all products for the candy industry is shown in Fig. 1. It is at once apparent that all three curves have a high degree of correlation. Reference may be made to Table 1, where percentages are calculated, showing the relationship of candy and food to the total manufactures. The percentages for food range between 15 percent (1923) and 23 percent (1934) of the total for all manufactures. Similarly, the value of all candy produced was between 0.40 percent (1943) and 0.77 percent (1932) of the same total. Since these ratios are for a period which includes a complete business cycle - prosperity, boom, depression, and recovery - there seems to be little prospect of any marked change, at least during a free market. One qualification may be observed: the percentage of consumer

NUMBER OF WAGE EARNERS EMPLOYED BY ALL INDUSTRIES

COMPARED WITH EMPLOYMENT IN FOOD INDUSTRY

AND CANDY INDUSTRY: 1923 THRU 1947

(Thousands of employees)



Source: Census of Manufactures,
Survey of Current Business.

Fig. 2

spending for food tends to decrease somewhat during periods of prosperity, when more income is available for non-essential buying. The reverse is true during depression. In general, the same conditions affect the demand for candy.

2. Employment and Labor

Similar comparisons are made in Fig. 2, on the basis of number of persons employed. Percentages which the candy and food industries bear to total United States industry are shown in Table 2. Thus the number of employees in the food industry varies between 7.2 percent (1943) and 11.1 percent (1935) of the total industrial employment, while employment in the candy industry is from 0.38 percent (1943) to 0.89 percent (1932) of the total. Due to difference in size of the percentages found, it is difficult to present them graphically without distortion. A review of Table 2 will reveal, however, that while the percentage of employees in the food industry was increasing from 1923 thru 1938, the percentage of employees in the candy industry during the same period was decreasing. A probable cause for such decrease may be found in increased manufacturing efficiencies due to mechanization, as firms came to specialize more completely in their principal line of goods.

Unionization in the industry is not extensive. In January, 1947, 29 percent of 386 firms studied were union establishments, where over half of the employees were under

collective bargaining agreements.* These plants accounted for about 40 percent of industry employment, and were most numerous in the Pacific area, where 63 percent of the firms were unionized. It is interesting to note that in the Great Lakes region, non-union workers had wage advantages over employees in union plants, while the reverse was true for firms in the Middle Atlantic States. One factor operating against the possibility of wide unionization may be found in the large number of small plants which make up a significant portion of the industry; of the 386 firms studied -

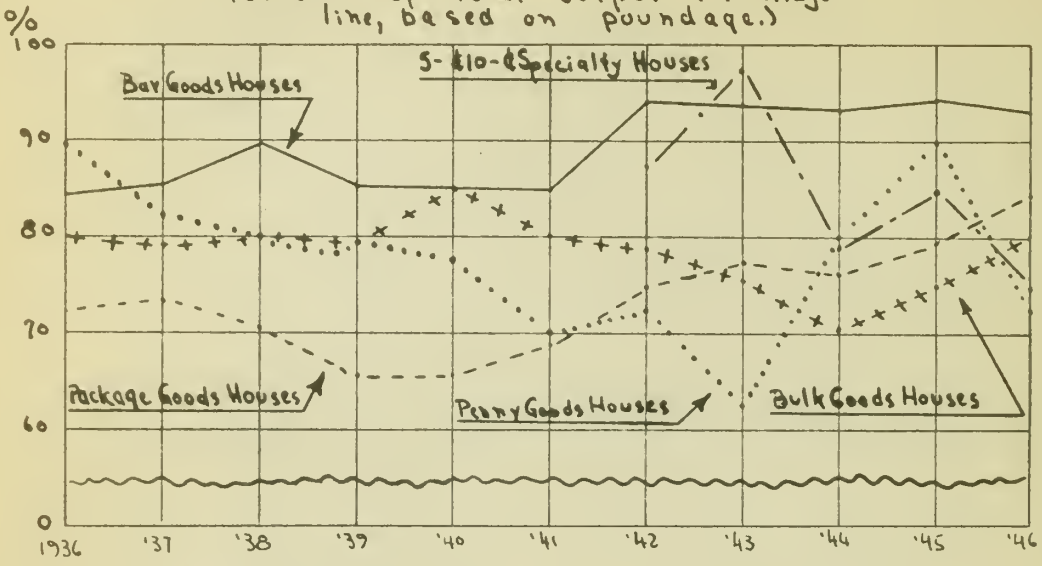
14 percent had 251 or more employees,
31 percent had 51 to 250 employees,
55 percent had 8 to 50 employees.

Strikes in the industry have been more frequent, and have involved more workers from 1935 forward than during the preceding period. 1937 was the worst year for strikes, when 16 percent of all employees were involved in labor disputes. Table 2-A consolidates the available information on this subject, which was drawn from yearly studies by the Department of Labor in connection with work stoppages. There seems to be no particular correlation between employment trends in the industry and the incidence of labor disputes. Rather it

* U. S. Department of Labor, Bureau of Labor Statistics, Wage Structure, Candy and Chocolate, 1947; introductory comments, and Table 2 form the basis for the material in this, and the following paragraph.

SPECIALIZATION OF CANDY PRODUCERS IN MAJOR LINE OF GOODS: 1936 THRU 1946

(Percent of total output in major line, based on poundage.)

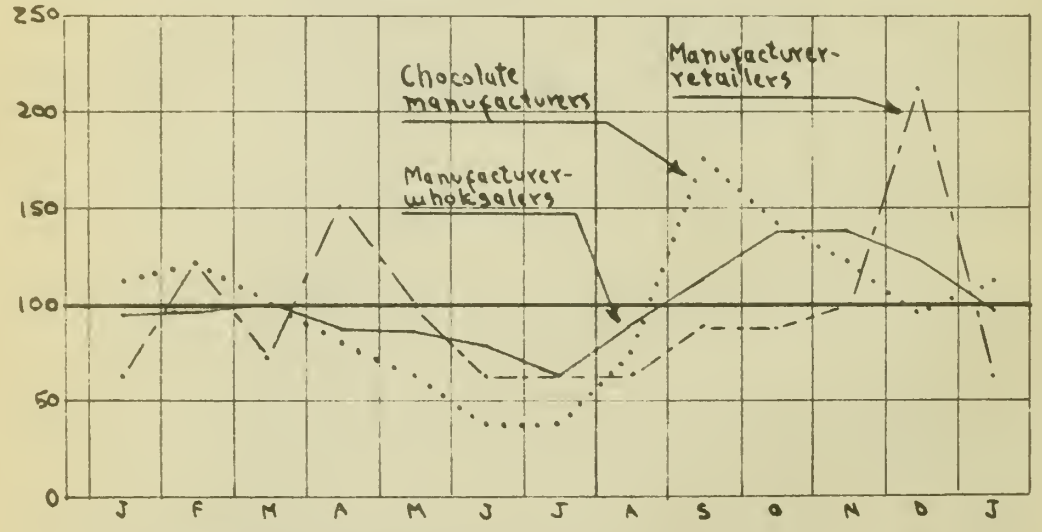


Source: Department of Commerce
Bureau of Foreign & Domestic Commerce

Fig. 3

SEASONAL FLUCTUATIONS OF CANDY PRODUCERS' SALES

(Monthly average = 100)



Source: Department of Commerce
Bureau of Foreign & Domestic Commerce

Fig. 4

seems reasonable to look for the cause in the general unrest, which has been characteristic of the post-depression period.

3. Specialization

The extent of specialization by firms in the industry on their main line of goods is indicated in Fig. 3, where it will be seen that the bar goods houses specialize to a greater degree in their line than do the other producers examined. Unfortunately, data were not collected prior to 1936 so that movements during the prosperity of the late 1920's and the subsequent depression could be studied. It is particularly interesting to notice the increased degree of concentration of bar goods houses in their line during the years of World War II, when Government buying was particularly strong in their line.

4. Seasonal Fluctuations

The seasonal nature of candy producers' sales is shown in Fig. 4. This fluctuation is due partly to climatic changes at alternate times during the year. Regardless of the kind of goods they make, all manufacturers suffer from a disinclination on the part of consumers generally to eat candy during the Summer to the same extent as during the Winter. This situation arises primarily because candy produces heat and energy when eaten, and is therefore not so

acceptable when the weather is warm. The same condition is one of the factors adding to the difficulty of selling candy in the Southern States: while the South consumes nearly four times as much candy as it produces (see Fig. 8.), per capita consumption in this area is lower than in any other region.

Fluctuations in sales resulting from increased consumption directly before important holidays produce a pattern which is quite as regular in recurrence as that imposed by changing seasons. Peaks are habitually located just before Easter, Thanksgiving, and Christmas, with secondary peaks before Valentine's Day, Mother's Day, and July 4th. The influence of holiday business is strongest in gift lines - package goods retailing for more than a dollar per pound, and specialty lines, such as party favors, molded animals, birds, and so on. Manufacturers producing bars, bulk, or penny goods are much less influenced by the holiday trade.

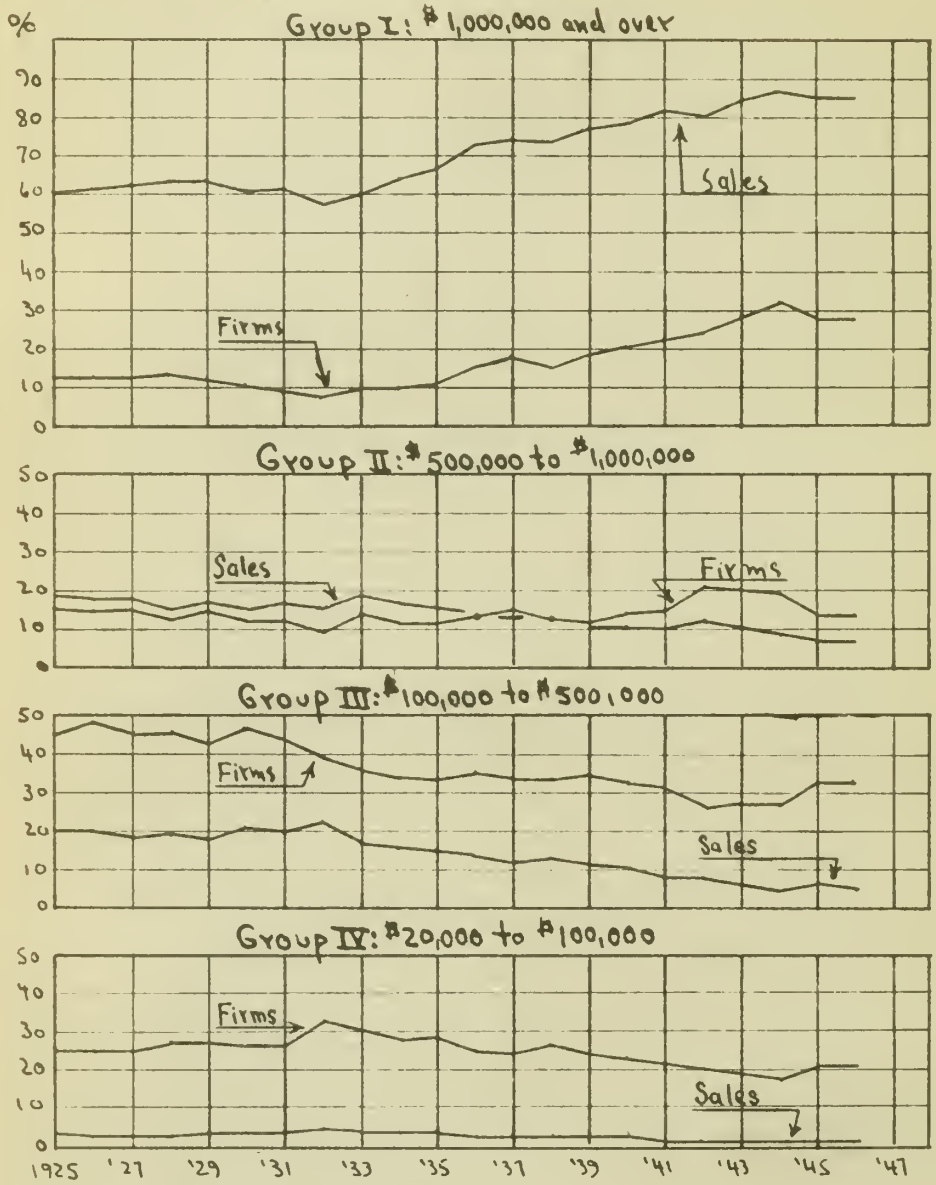
Unlike many goods whose consumption may be seasonal for either of the reasons mentioned above, candy should not be produced a great while before it is consumed. It is difficult, therefore, for a manufacturer to utilize the Summer months making goods which will go on sale during the following Fall or Winter. Some steps may be taken to produce for inventory, depending on the kind of goods involved. If package goods are to be stored they should be kept under refrigeration, which adds to the cost of storage. Hard candies can be kept

with less difficulty, and require only a cool area rather than a refrigerated space. Some manufacturers attempt to increase production as more goods are required, adding more personnel, working longer hours, and utilizing capacity more efficiently during seasons when demand is strong. Such a policy requires more personnel and equipment than would be needed if production could be regularized; it also means that considerable excess capacity will be available during "off" periods of the year. A third technique to meet the problem of seasonal demand, which has been increasingly used, is that of scientific packaging. Various materials, particularly plastic sheeting, are now available which render a package almost completely air tight, and thus moisture proof. Candy manufacturers have long used tin cans for this reason, among others. Rigid, molded plastic boxes are also used, particularly for specialty and gift items.

Further reference to Fig. 4 will indicate the order in which peaks are reached by three types of producers shown: the chocolate manufacturer reaches a peak first, since he must supply both the manufacturer-wholesaler, and manufacturer-retailer; the manufacturer-wholesaler reaches a peak next, for he must usually allow time for shipment of goods to the retailer; the manufacturer-retailer reaches a peak last, for his marketing channel is the shortest of all.

CONCENTRATION OF SALES BY CANDY MANUFACTURER-WHOLESALERS BY SALES-SIZE GROUPS: 1925 THRU 1946.

SHOWING PERCENTAGE OF FIRMS IN EACH SALES-SIZE GROUP, AND PERCENTAGE OF SALES MADE BY FIRMS IN GROUP, AS RELATED TO TOTAL NUMBER OF FIRMS, AND TOTAL SALES, FOR THE INDUSTRY.



Source: Department of Commerce
Bureau of Foreign and Domestic Commerce

Fig. 5

5. Concentration of Sales

A further indication that increased manufacturing efficiency has been realized generally in the industry can be seen in the definite trend toward concentration of business in the large firms. Fig. 5 shows the extent to which this concentration has taken place over the past twenty years. It will be seen that the firms in the million dollar class have increased in number and that the trend in percentage of sales made by these firms has steadily risen over the period. Oppositely, the trend is downward for firms in the lowest categories. It is interesting to note that while the percentage of firms in the $500,000 to $1,000,000 bracket remains fairly constant at about fifteen, this group has accounted for a decreasing percentage of sales.

Beginning with 1943, an additional sales-size group was reported, including those firms with a volume of over $3,000,000 yearly. In order to maintain uniformity in classification, the percentages for this group, and the group $1,000,000 to $3,000,000 were added together. Thus, 85 percent of industry sales in 1943 were made by firms having a volume of over $1,000,000, and of the 85 percent, 60 percent was made by firms having a volume of over $3,000,000. Similar comparisons may be made from the following table, which segregates the two groups within the million dollar and over classification.

Year	Percent of Sales *		Percent of Firms *	
	$1 million and over	$3 million and over	$1 million and over	$3 million and over
1943	85	60	29	11
1944	88	68	32	14
1945	86	70	28	13
1946	86	70	28	13

6. Raw Materials - Sugar, Cocoa

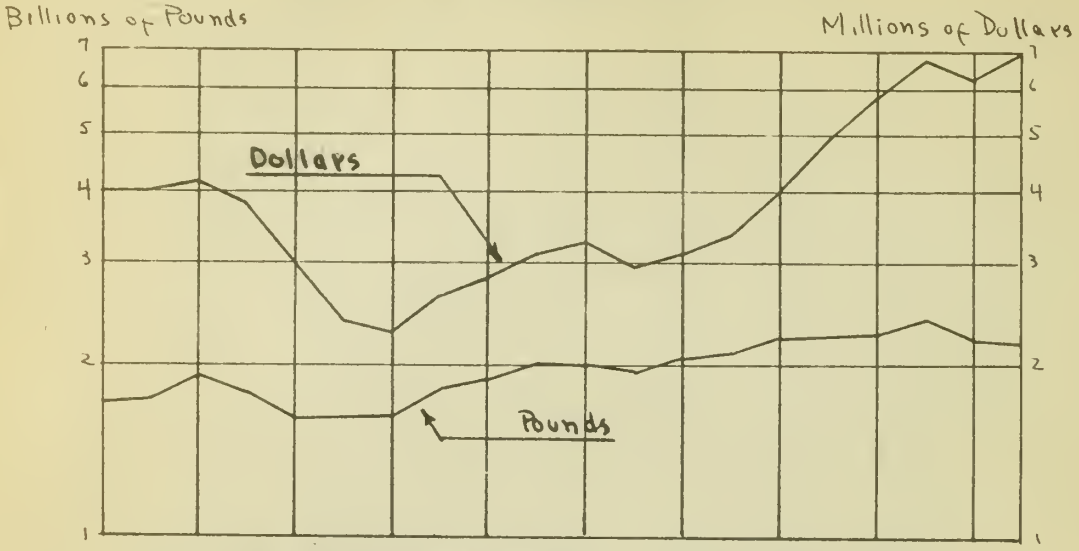
While the relations between any industry and its suppliers are important, the dependence of the candy industry on cocoa and sugar makes these two commodities occupy a special place in the thinking of any candy manufacturer. Substitutes have made their appearance, but not to such a degree as to decrease materially the requirements for these raw materials. Candy producers are hampered by the fact that in many cases a high percentage of their raw material costs are represented by these two items. Thus, given the narrow margin on which many manufacturers operate, a moderate increase in the price of sugar or cocoa can completely wipe out profits.

---

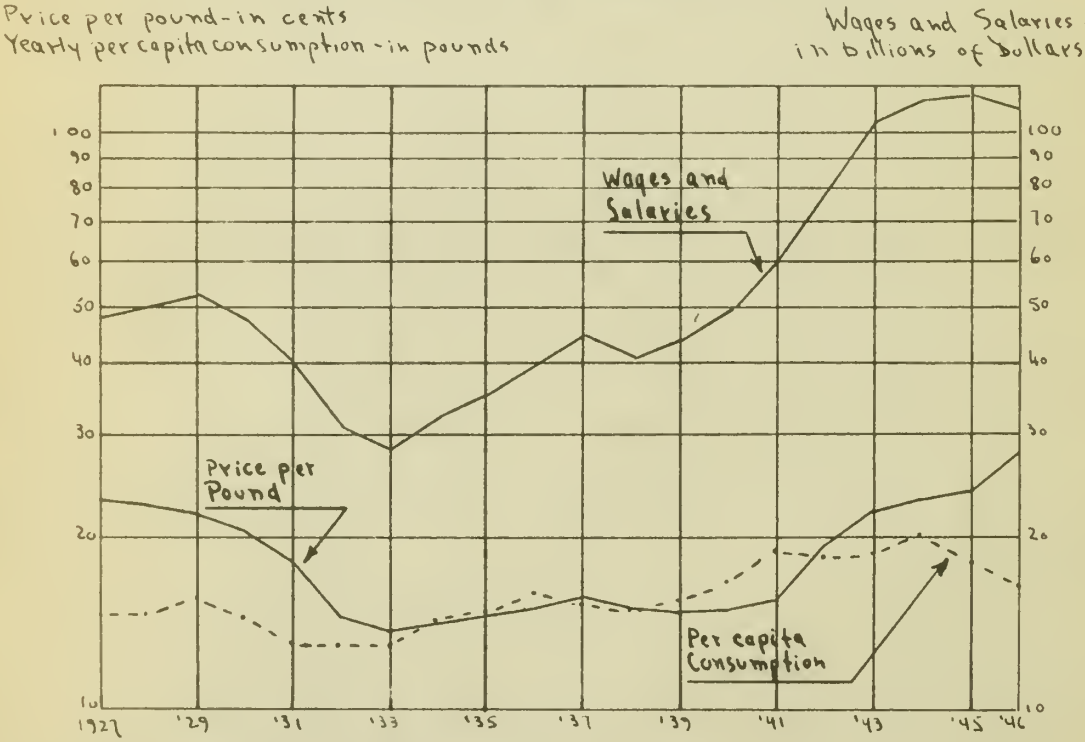
* U. S. Department of Commerce, Bureau of Foreign and Domestic Commerce, Confectionery Sales and Distribution, for years noted.

CANDY SALES AND FACTORS AFFECTING SALES: 1927 THRU 1946

SALES: BY POUNDS AND DOLLARS



FACTORS AFFECTING SALES: PRICE PER POUND, PER CAPITA CONSUMPTION, WAGES AND SALARIES



Source: Department of Commerce
Bureau of Foreign & Domestic Commerce.

Fig. 6

A further difficulty lies in the quasi-monopoly position of producers of these commodities: the price of sugar being largely determined by the United States government, and that of cocoa by the cartels and individual governments which control its distribution. In the case of these products, price is less responsive to the operation of general economic law than would be the case were they uncontrolled. It is true that during the 1930's prices of sugar and cocoa were depressed along with prices generally, but subsequent price movements have often been related to political and other non-economic phenomena, both national and international. An appreciation of events in this area is frequently an important element in analyzing price changes, and is of use in connection with any long range forecasting.

7. Factors Affecting Consumption

Various factors which affect consumption of candy are indicated in Fig. 6. A further influence not shown would be the population trend, which continues upward at a steady rate. Since candy is enjoyed by persons of all age levels, racial groups, and economic classes, an enlarging population will increase the amount of candy consumed, provided other factors do not operate to offset this influence. Other factors do affect consumption to a much greater degree, however, and it seems wiser to focus attention on these variables. While

the continued increase in population may give more stability to the industry than would otherwise be present, this influence would be measurable only over a long term period. At the same time, it should be noted that our population is increasing at a decreasing rate: during the 1920's this rate was approximately 15 percent of the 1920 figure; during the 1930's, about 10 percent of the population in 1930. A maximum population is expected between 1970 and 1980, with the total number of persons about 160,000,000

More important than the level of total population is the ability of that population to purchase candy, and the total of wages and salaries paid to non-agricultural workers has been considered to be an indication of this ability. While some objections may be raised to the use of wages and salaries as a measure of purchasing power, it serves to indicate the general income level, and correlates more closely with production (expressed in pounds) than per capita income.

Given a certain level of wages and salaries, consumption will depend largely on the price per pound, as is indicated in Fig. 6. The abrupt price rise, beginning with 1942, coincides with the levelling of the per capita consumption curve, which had previously been rising. Wartime restrictions on candy production from 1942 thru 1945 placed a definite ceiling on the amount of candy available for the civilian market. Price control exerted a restraining influence on the upward trend of prices during this same period. The

operation of normal supply, demand, and price relationships was therefore suspended for these years. In passing, it may be noted that production in pounds reached an all-time high, as did per capita consumption, during 1944. Reference to Fig. 10 will show this to have been the year of largest Government purchases.

As part of the 1949 study of Confectionery Sales and Distribution, the Department of Commerce investigated the question of correlation between the amount of candy sold (in pounds), the manufacturers' average price per pound (in cents), and the total amount paid in wages and salaries (in millions of dollars). Where candy sales were treated as the dependent variable, the coefficient of multiple correlation was 0.956. The standard error for this coefficient expressed in pounds of candy is 70.70 million pounds - a relatively small amount when it is recalled that annual production since 1936 has usually equalled or exceeded 2 billion pounds.

The equation for the relationship was calculated to be: $X_1 = 1703.4 - 60.92 X_2 + 0.0298 X_3$ where --

X_1 = amount of candy sold (millions of pounds)
X_2 = producers' average price per pound (cents)
X_3 = amount paid in wages and salaries (millions of dollars)

Translating this relationship into terms of movement between the variables, the Department concluded that an increase of 10 billion dollars in wages and salaries would be accompanied by an increase of 298 million pounds of sales,

when price remained constant; similarly, an increase of one cent in the manufacturers' average selling price would bring a decrease of 61 million pounds of sales, provided wages and salaries remained constant. It was felt that a decrease of one cent in price would have an equal and opposite effect. The calculations just discussed, together with basic data, and charts will be found on pages 6 and 31 of the 1941 study mentioned above.

The relationship between volume, price per pound, and income is shown in Fig. 6. Such an analysis helps to show the expediency of pricing policies during various phases of the business cycle. It may be seen clearly that during periods of falling income, price reductions did not result in the sale of an increased tonnage of candy. Thus, during the period from 1929 thru 1933, the expectations of the industry to offset falling prices by increased tonnage were not well founded. On the other hand, it appears that during periods of rising income, price increases resulted in increased receipts, with a larger tonnage of candy being sold during each year. To generalize from the available data, it appears that during periods of falling income, price reductions were not large enough to move a sufficient tonnage so that revenue might be maintained. During periods of rising income, price increases did not result in decreased tonnage, and actually revenues were increased. Under these same conditions, in

1939 price reductions were sufficient to move a large amount of candy, so that revenue was increased.

While these observations are nothing more than the application of the economic law of demand, and apply to the industry in general, it should be noted that the elasticity of demand for an individual firm is usually greater than that for the entire industry: i.e., the single firm may actually cut prices to such an extent during a period of falling incomes that a greatly increased volume of sales will result, and that total revenue will be larger. Such a program would involve drastic steps, such as a price reduction of perhaps 1/3, coupled with an expansion of sales to five or six times. It is evident that there would be few firms in a position to take such a step, particularly if losses had been experienced for any length of time previously.

Chapter 2

The Marketing Task

1. Source Material

The data for this chapter, which is primarily concerned with the geographical problems presented in the marketing of candy, is drawn from studies made by the Department of Commerce in 1942 of general areas of production and consumption, and supplemented by that part of the 1946 Confectionery Sales and Distribution which relates to the same topic. The study made in 1942 was the first of its kind since 1929, and treated the problem of candy sales by areas of market location. While the value of 1942 data may be questioned in its bearing upon present problems, in some ways the selection of this year is highly satisfactory. At that time, the Government had not yet begun to be a buyer of candy on a large scale, nor was the problem of raw material procurement as serious for the industry as it later became. At the same time, demand for the product was stronger than ever before; while more pounds were sold during 1941, the value of 1942 production was higher than that of 1941, due to price increases. At the same time, the general economic situation of the nation in 1942 bore a greater resemblance to the post-war picture than the years immediately following, or preceding. On the one hand, raw materials and prices were controlled; on the other, the nation was still recovering

AREAS OF PRODUCTION AND CONSUMPTION OF CONFECTIONERY

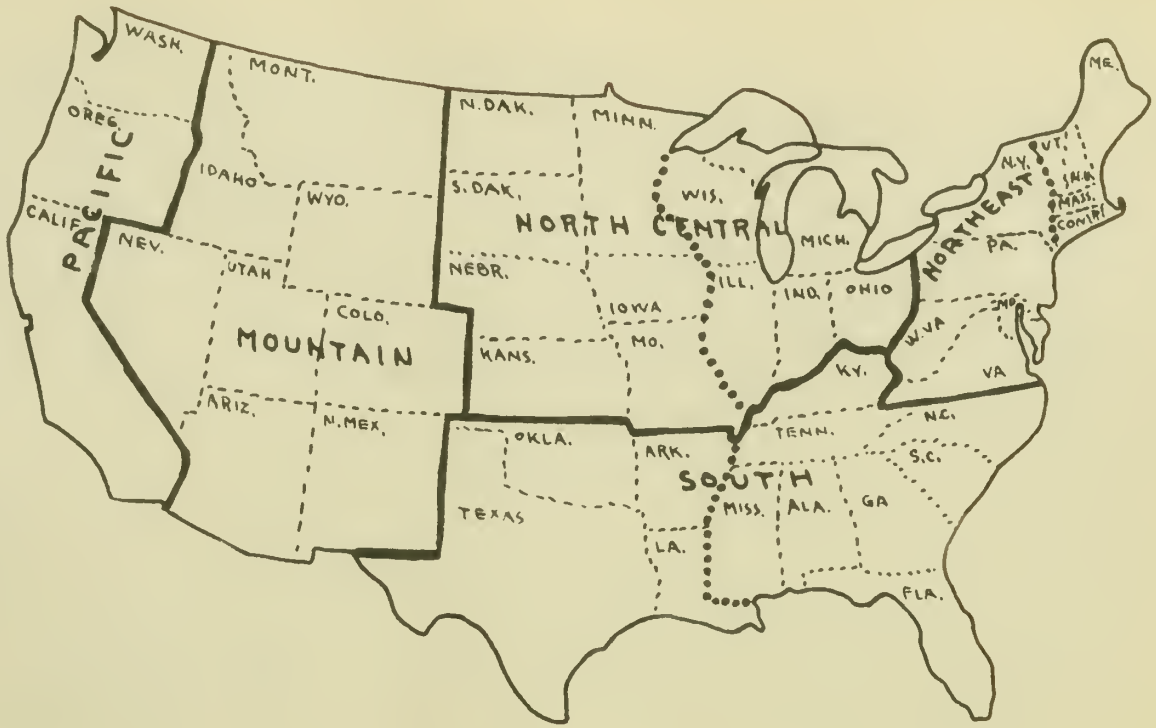


Fig. 7

from the effects of the 1932 depression, and general economic activity was on a smaller scale than that since World War II.

2. Areas of Production and Consumption

For purposes of analysis, the 1942 survey divided the United States into five sections: Northeast, North Central, South, Mountain, and Pacific. The states included in each section may be seen in Fig. 7, where the solid lines indicate the divisions. In response to requests for greater detail, the 1946 survey sub-divided these sections, as shown by the heavy dotted lines on the map. For purposes of comparison, the 1942 areas have been used, and the 1946 data added together, so that results will be comparable.

Some discrepancy may arise in allocating sales of candy to a particular area, due to the location of large trading centers near the border of that area. Cities such as Louisville, Cincinnati, and Reno would be examples of this situation. Manufacturers' sales to jobbers in these cities would,of course,be credited to the area where they are located, even 'tho a considerable portion of the jobbers' sales might be made to retailers in the adjacent area. The allocation of sales to a particular area was made on the basis of manufacturers' reports, which would not show the ultimate destination of goods. The same problem may obtain with respect to jobbers generally, since no account was taken

of their sales to nearby areas. It is assumed that the effect of such shipments is not sufficiently large to vitiate the results of the survey, because most candy wholesalers are local in character, rather than sectional or national. Consequently, the amount of candy allocated to one area, but shipped to another would be small, and the volumes would tend to be compensating.

The results of all surveys made by the Department of Commerce in the candy field are of necessity based on a sample, this sample being made of replies which are usable from those firms returning their questionnaires. The data tabulated for the 1942 survey was obtained from producers who supplied 60 percent of the national output. In commenting on this fact, the Department of Commerce says:

> "In the Mountain area, where the least sales were reported and where the number of reporting producers was relatively few, it might appear that coverage for the area was unsatisfactory. On the other hand, the limited sales figures secured for the Mountain region were sufficient to show for this area the highest per capita consumption of candy among all five regions. Thus the smallness of the sample for Mountain area producers appears to be in keeping with the limited population of the region." (page 9).

While the absolute amounts reported for various areas may thus be open to some criticism, relationships within these amounts (for example, percentage of various kinds of candy consumed in different areas) are likely to

be comparable for the year studied, and also for 1946, when the amounts involved were somewhat different. For this reason the charts directly following are based on percentage relationships rather than absolute amounts.

3. Definitions

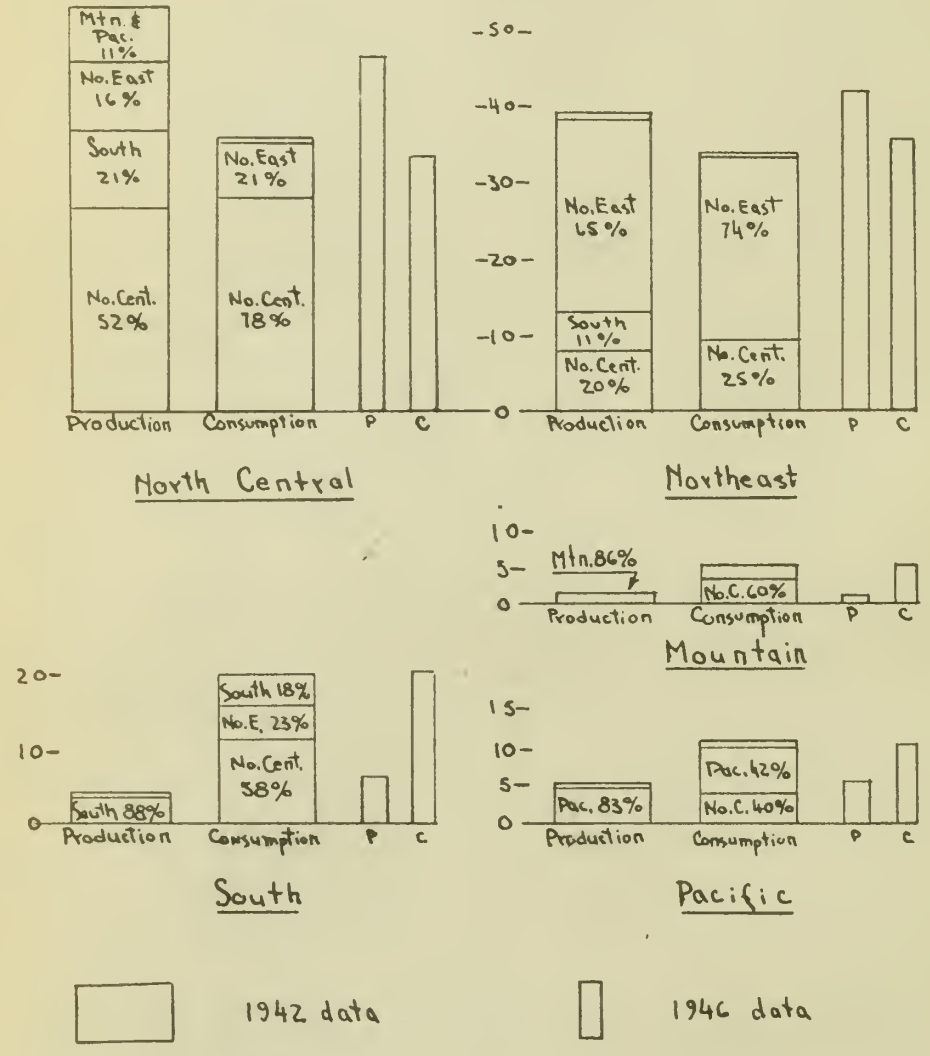
The candy industry, thru the National Confectioners' Association, was one of the first industries which requested the Department of Commerce to make nation-wide studies of candy production and distribution. These reports were begun in 1926, and have been continued on an annual basis since that time. They contain much of the statistical data which will be analyzed in this thesis. At the outset, certain categories of goods were outlined, and classifications were set up for the various types of producers in the industry; these classifications have been maintained thruout the series. The special report made in 1942 makes the same distinctions, which are listed below, and which will be used from time to time in the present study.

> "A. Manufacturer-wholesalers -- the mass producers of the candy industry whose goods are marketed largely thru sale by the producers to jobbers, chain stores, or independent retailers. Manufacturer-wholesalers are further divided into six sub-groups:
>
> "1 - General-line houses -- producers making a variety of goods, with no one type of candy in preponderance.

RELATIVE IMPORTANCE OF MAJOR PRODUCTION[11] AND CONSUMPTION[12] AREAS FOR MARKETING OF CANDY: 1942 AND 1946

[11] INCLUDING PERCENT OF PRODUCTION SENT TO PRINCIPAL SALES AREAS IN 1942.
[12] INCLUDING PERCENT OF CONSUMPTION DRAWN FROM PRINCIPAL SUPPLY AREAS IN 1942.

(Percent of total produced)



Source: Department of Commerce
Bureau of Foreign and Domestic Commerce

Fig. 8

"2 - Bar-goods houses -- producers whose output is preponderantly bar candy, frequently chocolate-covered or solid chocolate bars.

"3 - 5- and 10-cent specialty houses -- producers whose output is preponderantly items (exclusive of bar goods) such as rolls, bags, or packets of mints, fruit drops, caramels, etc., intended to retail at the prices indicated.

"4 - Package-goods houses -- producers whose output is preponderantly candy (frequently chocolates) marketed in boxes, cans, or similar containers, usually one pound or multiples thereof.

"5 - Bulk-goods houses -- producers whose output is preponderantly candy marketed in bulk, frequently hard candies or unpackaged chocolates weighed out at retail for sale by the pound.

"6 - Penny-goods houses -- producers whose output is preponderantly candy intended to retail at one or two cents per unit, or possibly several items for one cent.

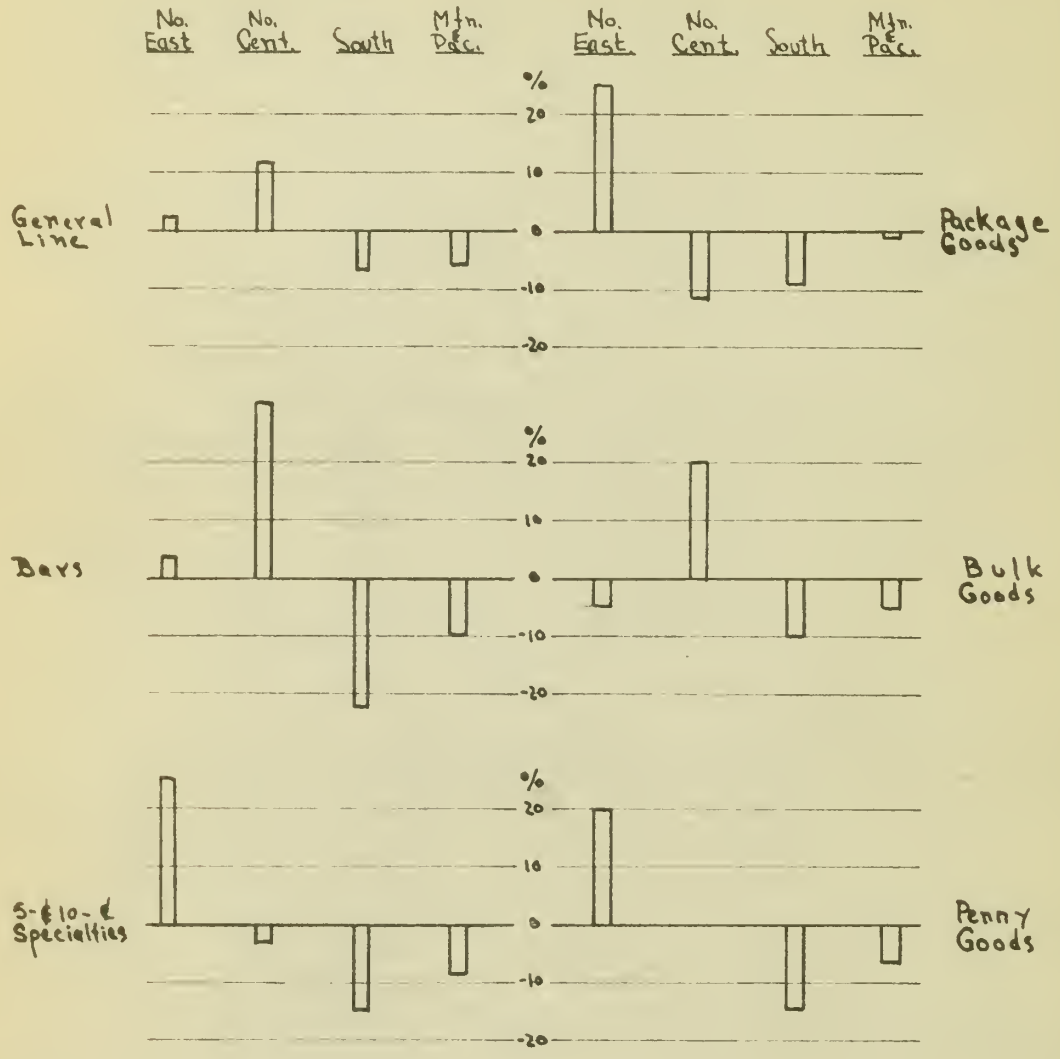
"B - Manufacturer-retailers -- a smaller segment of the candy industry, consisting of producers whose goods, usually boxed chocolates, are sold directly to the consumer through manufacturer-operated stores." (page 10)

4. Amount Produced and Consumed by Areas

The various areas of consumption and production are shown in Fig. 8, the height of each bar representing the percent which that area produces or consumes of the total volume reported, all calculations being on a poundage basis. Within the large bars are smaller segments representing the areas to which production is distributed, and from which consumption is drawn. Thus it will be seen that of the candy

SURPLUS AND DEFICIT[1] AREAS BY KIND OF GOODS: 1942

[1] DIFFERENCE BETWEEN PRODUCTION AND SALES IN POUNDS FOR EACH AREA EXPRESSED AS PERCENT OF PRODUCTION FOR THAT AREA.



Source: Department of Commerce
Bureau of Foreign and Domestic Commerce

Fig. 9

produced in the North Central area, 52 percent is sold in the same area, 21 percent in the South, 16 percent in the Northeast, and 11 percent in the Mountain and Pacific areas. Similarly, of the candy sold in the North Central area, 78 percent is drawn from the same district, while an additional 21 percent comes from the Northeast. The smaller pair of bars, representing percent of total production and consumption in 1946, is included for comparison.

It will be noted that there is little change between the 1942 and 1946 distribution of consumption and production. In all areas, the change was less than $2\frac{1}{2}$ percent, with two exceptions: in the North Central area, production declined by 6.3 percent in 1946, and in the Northeast, production increased by 3.3 percent in 1946. In view of these small changes, and lacking positive evidence to the contrary, it seems safe to assume that consumption and production is divided currently about as it was in 1942.

5. Surplus and Deficit Areas

While it is easily seen that the Northeastern and North Central areas produce more candy than they consume, neither of these areas produces as much as it consumes of each line of candy. This situation is demonstrated graphically in Fig. 9, where it is evident that the Northeast has a 5 percent deficit of bulk goods, and that the North Central

area has a 6 percent deficit of 5-and 10-cent specialties, as well as a 17 percent deficit of package goods. The surplus or deficit position of each area for each line of goods was determined by subtracting the consumption for a particular line from the production of the same kind of goods. If an excess of production over consumption resulted, the area is said to have a surplus, and conversely. The amount of such surplus or deficit was calculated as a percentage of the total production in pounds for that kind of goods. It may also be seen that the South, Mountain and Pacific regions showed deficits in all lines of candy, and that these same regions had a general deficit as indicated in Fig. 8. Further reference to Fig. 9 reveals that the Northeast area is the most nearly self-sufficient; its only deficit is in the bulk line, amounting to 5 percent. While the North Central area had larger production, deficits were found in the package goods line as well as the 5- and 10-cent specialties line, totalling 18.6 percent. Oppositely, the South incurred deficits in all lines, to a larger degree than did the Mountain and Pacific areas. The general basis for this situation may be found in Fig. 8, where it is evident that the relative disparity between consumption and production for this area is greater than for any other.

6. General Comments

In a general way, Fig. 9 indicates the distribution

pattern now being followed, and shows what may be expected of attempts by producers in various sections to market their goods in distant localities. It is clear, for example, that the greatest surplus of bar goods exists in the North Central region, and that this surplus is shipped for consumption to the South. Similarly, a surplus of 5-and 10-cent specialty items is found in the Northeast, and is shipped principally to the South. Usually the local manufacturer will incur lower costs in reaching the immediate market than will his more distant competitor. Recent increases in transportation costs have increased the disadvantage of firms desiring to sell their products in a distant market, particularly since so much candy must travel at less than carload rates. To the transportation expense must be added general selling expense, administration, and collection expense, all of which increase with the area of operation. Given then the competitive advantage of the local firm, more distant producers would re-examine their distribution to determine whether penetration into a particular market is financially desirable. It would seem, for example, that special circumstances should exist for a Southern manufacturer of 5- and 10-cent specialties to attempt to enter the market in the Northeast, where production of this kind of goods is considerably greater than consumption. For the same type of merchandise, a manufacturer located in the North Central area would weigh the

desirability of markets in the Southern area and the Northeast: while a 15 percent deficit exists in the South, against 25 percent surplus in the Northeast, the latter market affords twice the consumption for all lines of candy than does that in the South, and a per capita consumption which is higher by four pounds.

Any analysis of the desirability of a particular market must of necessity be based on the possession of accurate marketing costs, which are much more difficult to detail than manufacturing costs. The surplus or deficit positions of the various areas shown in Fig. 9 may help to explain why costs due to strong local competition are high.

The variation in per capita consumption in different areas further complicates the marketing picture. The 1942 survey previously referred to reported (page 7) the consumption situation as follows:

Northeast.....19.4 pounds per capita
North Central.....22.0 pounds per capita
South.....13.4 pounds per capita
Mountain.....23.3 pounds per capita
Pacific.....20.5 pounds per capita

The marketing difficulties presented by the South, Mountain and Pacific regions are evident. While the South accounts for almost 20 percent of consumption (Fig. 8), per capita consumption for the area is the lowest of all regions studied. The geographical problem further complicates coverage: the area extends from Texas to the Atlantic

Ocean. Oppositely, the Mountain area has the highest per capita consumption, yet accounts for slightly less than 5 percent of total consumption. While the area is not so large as the South, the difficulties of adequate coverage present numerous problems. Yet these three regions comprise over 41 percent of the total consumption of candy. If from this figure is deducted the 9 percent of production attributable to the same localities, a deficit still remains of more than 32 percent, which must be made up by the North Central and Northeast areas. The problems connected with distribution in these two areas may be something less from the standpoint of coverage: not only are they smaller in area, but they are more densely populated. The fact that there is over-production in both, which appears in most lines of goods serves to point up the intensity of competition.

The entire marketing situation is further complicated by the inherent characteristics of candy itself. Generally speaking, it is desired in some form by persons of all ages, economic levels, and racial groups. Thus the distribution must be nation-wide. It is usually bought as an impluse good, an exception being the more expensive package goods. Consequently it should be available to the consumer wherever he may happen to be. Lastly, much candy is sold at a fixed price to the consumer, usually at five cents per unit. This price can not be conveniently raised to six or seven cents to absorb higher marketing and production costs, as can

the price of, say bulk goods, which may be raised from 27 cents per pound to 30 cents. Connected with the relative inflexibility of price is the smallness of that price. There is much less margin in a five cent candy bar to cover expenses of advertising and marketing than there is in a box of chocolates retailing at $1.50 per pound. These questions bearing on the marketing task will be examined in greater detail, from a theoretical standpoint in the next two chapters, and from an examination of actual practice in the succeeding chapters.

Chapter 3

Choice of Marketing Channels

1. Basic Considerations

The aim of the marketing function for candy is the distribution of the product to the ultimate consumer. Thus the term marketing embraces all activities which begin when candy is delivered to the shipping room of the manufacturer, and cease when the individual unit is in the hands of the ultimate consumer. The methods to be used depend on a number of factors, which are discussed below, but the chief element is that of the consumer himself. Any analysis of marketing procedure must begin with a complete understanding of the consumer. It may almost be said that no manufacturer can know too much about the ultimate consumer of his product: how many pounds of candy per year he may be expected to eat, how much he will pay for his candy, what his buying habits are, where he is located, of what social, economic, and racial groups he is a part, and what his age is. Given such information, the producer may then take steps to manufacture goods according to the taste of his consumers, and to market his production so that it will reach these people. The entire distributive process then may be said to "pull" thru from the consumer's end, rather than being "pushed" thru from the producer's end.

When the manufacturer selects his marketing channel on the basis of consumer analysis, considerable is accomplished toward bringing about the co-ordination of effort which is essential to efficient marketing. On the other hand, where the producer focuses his attention on the jobber, the jobber in turn brings his sales effort to bear on the retailer, and the retailer makes his ultimate sale, the producer delegates decisions regarding the marketing of his product to the jobber and the retailer. Thus the manufacturer may distribute to those jobbers who offer the least sales resistance, and who seem to be finding retailers for his goods. Whether the retailers involved are the ones best suited to handle the line is a difficult problem to solve, because no studies have been made of the trading areas served. As a result, the product may or may not be reaching the area where it will have the best market, since there is no co-ordinated effort or plan of activity between the various elements of the marketing channel.

A discussion of the advantages and disadvantages of various marketing channels will not be undertaken here. It is felt, rather, that those factors bearing on a rational choice of a marketing channel should be classified and enumerated. Converse and Huegy* have summed up the situation

* Converse, Paul D., and Huegy, Harvey W., Elements of Marketing, Second revised edition, New York, Prentice-Hall, 1946; page 680.

commenting: "There is no one best way which can generally be stated (to market the products of a firm), although for each organization, when everything is properly considered and weighed, there is probably one best method."

2. Determination by Type of Product

The physical properties of candy itself affect the marketing channels which can be used. While shelf-life varies greatly between different kinds, in general it may be said that speed in performing the distributive function is particularly desirable. Under some circumstances, this may argue for direct selling to consumer, thru retail outlets owned by the manufacturer, or mail order selling. This same characteristic of perishability affects the type of handling which should be given candy thruout its distribution; in general, refrigerated storage should be used, a factor which adds considerably to warehousing expense. Above all, candy will not stand heat, and so requires special consideration by the retailer who may have only limited facilities for storage. Even under the most satisfactory conditions, rapid stock turnover must be maintained if the consumer is to have fresh goods. This situation puts a premium on adequate records which will show how much stock is on hand, and when it was received. The fact that many wholesalers and retailers do not maintain such stock controls as will enable them to move their merchandise before it becomes unsalable is emphasized

by the amount of goods which are returned to the manufacturers yearly. This figure, as reported by the Department of Commerce in their annual studies of the industry, varies between one percent and 1½ percent of sales. While the factor is not large, in the long run it represents additions to the cost of goods which are passed on thru the system to the consumer, resulting from pure waste, which in most cases could be avoided.

The wide variations in unit value which are to be found -- all the way from penny goods to packages retailing at well over a dollar per pound -- may be expected to affect the methods of distribution. Generally, goods having a high unit value will be sold thru relatively short channels of distribution. Nearly all manufacturer-retailers, having the shortest channels of all producers, specialize in the production of package goods, usually in the higher priced lines. Since much of this candy is produced for a relatively restricted market, the type of distribution employed gives the manufacturer the closest possible control over his outlets. Oppositely, those firms making candy having a low unit value are likely to use the longest channels of distribution, since it is generally required that broad distribution by achieved. Some producers, however, distribute this class of goods directly to the retailer, even 'tho the line may not be particularly wide. Their products are nationally advertised, and meet with wide consumer acceptance.

It was noted above that rapid handling is desirable for all kinds of candy. Unfortunately, the high ratio of bulk in proportion to value makes it prohibitively expensive for a manufacturer to ship by any except the least costly methods. As it turns out, the low cost items are those which involve the widest distribution, and are least able to bear the charges for premium handling. The transportation factor is further complicated because a relatively small amount of candy is shipped in car-load lots, as compared with that which must travel l. c. l. Consequently, much candy receives the minimum of transportation service, but is not shipped at the minimum rate. At the other end of the scale appears a manufacturer who ships his product, package goods retailing for well over a dollar per pound, by air to an outlet on the opposite coast from where he is located!

The quantity purchased by individual customers of the manufacturer is perhaps the most obvious factor affecting his choice of marketing channel. If his product is bought in relatively large quantities by large retailers, and chain organizations, he may well employ his own sales force to contact these outlets, rather than distributing thru a jobber. In fact, many large volume retailers insist on purchasing directly from the manufacturer at wholesale prices; such a procedure is the settled policy of the chains. Such a marketing program has numerous advantages for the producer:

his selling expenses are reduced, his credit and billing costs are at a minimum, he can produce and ship in economical quantities. At the same time, the disadvantages involved should be noted: frequently, large volume retailers and chains insist on prices from the manufacturer which are at least equal to, and sometimes below, those which would be quoted to jobbers. If this is the case, the producer should examine the net profit derived from sales to these customers, in an effort to determine whether the accounts are really profitable, or merely seem to be so because of the large volume of sales. A further disadvantage of such an arrangement arises when individual outlets take a large part of a producer's product. When a chain or individual retailer buys, say, one fourth or one third of the total output of a firm, the buyer is in a strong position to demand, and receive special concessions which would not be proposed were the producer's distribution wider, where each customer accounts for a small share of the total volume. In view of the high state of competition in the candy industry, any producer selling his entire output to only a few accounts places himself in a disadvantageous position, for he has no assurance that his competitor may not make a successful bid for, and receive, his share of a large customer's business. These remarks are particularly apropos for those firms which make candy to be sold under private brands.

3. Determination by Characteristics of Demand

The characteristics of the demand situation which a manufacturer faces for his product will also have a bearing on the channels he uses for marketing. Since candy is a consumer good, it is likely that preliminary analysis will indicate that distribution thru jobbers is desirable. About half of the total candy production is marketed in this way, and, as will be indicated later, at the moment there seems to be no reason to believe that the proportion will not be maintained.

The above remarks apply particularly to those lines of candy which may be termed "impulse goods" - the penny and five-cent bar, as well as 5- and 10-cent specialties. For this kind of merchandise, it would seem that distribution should be as wide as possible, and be handled thru jobbers. An important qualification should be inserted here, since a considerable amount of penny and nickel bars are sold thru vending machines. Here the channel is greatly shortened, for the firms which are active in this type of selling insist on buying their merchandise directly from the producer at minimum prices. It is, of course, possible to devote considerable attention to the use of vending machines as an ultimate outlet for penny and nickel bars. Generally speaking, if sales for a bar are to reach desirable proportions, a certain amount of consumer acceptance must be developed before vending machine distribution is started. It has been demonstrated

that the use of vending machines will increase sales of a known product, but that this method is not satisfactory for launching an unknown brand.

Some brands of package candy are definitely shopping goods. This situation obtains for those brands which the consumer will request by name, and consequently the marketing channel may be shortened. A large amount of package candy is sold thru stores operated by the producer, although some well known brands are distributed thru the same outlets used by the manufacturers of less costly goods. It is apparent that a system of selling directly to the consumer thru a company operated store gives a large degree of control over selling, and promotion, so that emphasis on product differentiation may be increased. Once consumers have formed the habit of buying a particular brand of candy, the producer operating his own stores has other means at his disposal, all aimed at maintaining such preference: attractive store displays, courteous personnel, modern fixtures, and sanitary appearance.

It was indicated at the outset that a complete picture of the consumer is necessary if the producer is to have a hand in deciding to whom his candy will be sold, and how it will get there. Such a picture of the demand situation must involve considerations of location: are potential buyers concentrated in relatively few areas, or is it expected that the product will find a market in both urban and rural areas?

If the marketing area to be served is amall, then the manufacturer may well resort to providing his own sales force, and cultivate the locality intensely. An alternate solution might involve the use of exclusive jobbing agencies, a practice which could be extended to numerous areas, should it be impossible to cover all with the available sales force. The exclusive jobbing arrangement allows something of the same control which would be possible should the firm send its own salesmen on the road.

While the mechanics of distributing to urban localities are more simple than distributing to rural areas, if the line of goods being produced is thought to appeal to the population generally, then some method must be found to distribute economically to the large numbers of persons who live in small cities and towns. This market is a substantial one: about one-third of the total income of the country is received by farmers and persons living in towns of under 10,000 population.* As pointed out previously, unless special circumstances are present, the use of jobbers would seem to be the most satisfactory way to reach this market.

In relatively few cases, distinct sectional differences may be found in consumer preferences. If a particular

* Starch, Daniel, The Income of the American Family, 1930, quoted in Converse, Paul D., and Huegy, Harvey W., The Elements of Marketing, second revised edition, New York Prentice-Hall, 1946, page 315.

line sells easily in a certain area, it would certainly pay the manufacturer to find out why this is so. It may be that his representation is better than it is in other localities. If this is the case, then the producer may try to improve his selling practices elsewhere. Examination of the local situation may indicate the presence of distinct racial, social, or economic groups to which the product may appeal particularly. As a result of this discovery, it may be possible to alter existing marketing channels so that these groups are reached more effectively.

The amount of advertising, and other promotional effort expended, has considerable effect on the nature of demand, and consequently on the marketing methods to be used. It is generally recognized that the average jobber is not in a position to take an active part in demand creation. If this work has been done thru advertising and other promotional devices, including missionary salesmen, then little or no selling effort may be expected from the jobber: he performs the warehousing, delivery, and collection functions. Where a strong demand situation exists, the manufacturer may be justified in dispensing with the jobber completely; accordingly he may engage public warehouses to perform the storage and delivery functions, and himself take over the problems connected with credits and collections. If demand for the product must be created, then the manufacturer may organize his own sales force, or distribute thru jobbers or

may enter into exclusive agency contracts, and depend on the jobber to handle promotion.

4. Determination by Existing Trade Organizations

A producer may use a given marketing channel because it is the one customarily employed for the class of goods he makes. There is much to be said in favor of the use of marketing agencies which are in the habit of handling similar goods, and which have developed methods and procedures based on long experience in the industry. Thus it may result that, without definite investigation, a firm will decide to market its output thru wholesalers, because the wholesaler is utilized by a large number of firms in the industry. Similarly, a firm may decide to market its product in a given city thru a commercial warehouse, which has built up a reputation of efficient handling with respect to candy.

Competitive strategy will determine to an extent whether a particular producer will distribute his goods in the same way as his competitors do, or whether he will elect to introduce innovations, with the risk that this entails. To begin with, the use of an irregular channel for distribution should be based on a complete analysis of all factors bearing upon the situation. This work may be both time-consuming and costly. If the irregular channel gives satisfaction, the trade is sure to learn of it, and the innovator will

find that his less original competitors are following his lead, thereby reducing the advantage he originally possessed. Thus the channel which was originally irregular becomes part of the normal distribution scheme.

It is, of course, possible to use too many channels of marketing. In the long run, each is directly or indirectly competitive. While the wholesaler will concede the manufacturer's right to sell directly to chains and department stores, because these firms seldom buy at wholesale, the argument arises when the manufacturer decides to sell directly to the larger customers of the wholesaler. Whether such a move is justified depends on individual circumstances. The result may be to weaken the distributive pattern: the manufacturer may not be particularly adept at handling the accounts he has elected to take over, and the wholesaler will hardly be expected to devote an increasing amount of energy to his smaller customers if he feels that the producer will expect to service them once satisfactory volume is developed.

Oppositely, some firms may employ too few channels for distribution. Such a situation could arise with reference to those companies who are not particularly aware of the importance of effective marketing. A case would be found in the small firm which elected to sell thru jobbers because this was the easiest course to follow, and whose main interest centered about production problems rather than the distributive pattern. Similarly, lack of knowledge as to the relative costs

involved in different systems of distribution would cause a manufacturer to use the same channel continually, although another might serve him better.

5. Determination by Special Situation

The factors so far mentioned have dealt with the choice of marketing channels as they applied to manufacturers of candy generally. It is, of course, realized that however desirable the use of a particular channel may seem, that there are special circumstances for each firm which may force the adoption of a policy which is less effective than could be desired. The management of a firm new in the industry may be limited, and their entire attention be absorbed with the daily problems of organization and operation. Although a combination of direct selling effort, and missionary salesmen might be the logical marketing channel, the firm may elect to sell thru jobbers simply because it has been impossible to make a complete analysis of the marketing task, and to determine the most effective methods for securing distribution.

In much the same way, lack of sufficient capital may make it necessary to use a given channel. The outlays required for setting up a sales organization to replace jobber representation, or the expense connected with developing a chain of retail stores may make such ventures quite outside the reach of under capitalized concerns, even 'tho management may feel that the return would justify the investment. Closely

related to the question of adequate financing is the problem of taxation. This aspect of the marketing problem would have greatest bearing for those firms who contemplate the operation of a chain of stores in various states. Such chains are not numerous. It is apparent, however, that should the tax burden imposed by an individual state be greater than that which could be carried, operations would not be extended to that area.

A firm may use direct methods of marketing because it wants to control market operations, particularly retail selling prices. Since it is now possible for any manufacturer to maintain a given retail price thru the operation of the Fair Trade Laws, this factor is of less importance than formerly. Control of marketing operations may be important to a firm in the sense that it wishes to keep constantly in touch with the market. Long marketing channels make this function particularly difficult, unless the manufacturer takes specific steps to acquire market information. This he may do thru consumer panels, and thru constant market research in the field. When the channel is short, however, changes in consumer preference and criticisms of the product may be relayed to management quickly. If a consumer feels that the chocolate coating used in the last box of candy he bought was too thin, he may comment on the fact to the retailer from whom he bought the goods. It is most unlikely that the retailer will pass

the criticism to the jobber's salesman, who will tell the jobber, who will in turn tell the manufacturer's salesman, who will finally tell his boss. On the other hand, should such a criticism be made to the clerk in a manufacturer-operated store, there is a better chance that the comment will reach the attention of the manufacturer, where some action may be taken.

Breadth of line has long been realized as an important factor in determining whether a producer could afford to sell thru his own salesmen directly to the retailer. It has been argued that when a short line is produced, the proceeds from each sale are not sufficient to warrant sending out salesmen. While in many instances this is true, it seems a better criterion would be set up if dollar volume per sale were considered. It may be that a firm making a relatively narrow line consisting of only five items has developed such a consumer acceptance of its products that a substantial sale can be made each time its salesman calls on a retailer. Oppositely, a firm making a complete line may not be justified in using its own salesmen.

6. Determination by Profit Derived

Professor Tosdal*, in his discussion of distribution

* Tosdal, Harry R., Introduction to Sales Management, second edition, New York, McGraw-Hill, 1940; chapter IV.

policies, proposes that each choice for a marketing channel should be subjected to the following tests:

> "How does a particular channel affect volume of sales?
> "How does a particular channel affect the margins of profit to be secured?
> "How does a particular channel affect the costs necessary to carry out the policy?"

Volume of sales is contingent on the "quality and amount of selling effort at every step in distribution..." It is particularly important that this selling effort achieve its maximum force in contact with the consumer. Then, a short distribution channel, giving the manufacturer complete control over the sales job at the consumer level may well bring larger returns than would be obtained should wider distribution be secured at the expense of decreased control. It is clear that when a manufacturer sells directly to the consumer, as thru a manufacturer-operated store, he not only has a high degree of control over the selling operation, but he sells at consumers' prices, and thus secures the largest possible margin. At the same time, his selling expenses are high. As the channel of distribution is lengthened, his margin decreases, but so do his expenses: if he sells directly to retailers, he must quote retailers' prices, and if he sells to jobbers, he quotes jobbers' prices. Margins and expenses may not decrease at the same rate, however, so that there

will be one channel offering the largest gross profit. It is usually expected that costs of sales increase as the marketing channel is shortened; while this is generally the case, an analysis of the specific marketing functions being performed may reveal that costs are being incurred which would not normally be found at that stage. For example, a firm may market its product initially thru jobbers, but as time goes on, missionary salesmen are added to such an extent that, for all practical purposes, direct selling to retailers is being practiced. Under these conditions, a cost analysis will show whether it would be less expensive for the manufacturer to distribute from a local warehouse, and take over the credits and collections, or whether he should attempt to get the wholesaler's services for a smaller fee.

While the marketing functions are not susceptible to quantitative measurement as are manufacturing techniques, various tests can be set up to help determine marketing efficiency. These tests can be applied to any stage in the marketing channel, from producer to retailer. Volume of sales per salesperson may be calculated, thus indicating the general effectiveness of the sales force. Capital used in carrying merchandise, and receivables, may likewise be computed. Since interest must be paid on all borrowed capital, and imputed interest charged against operations for owned capital, the efficient operator constantly tries to reduce the amount of capital involved in these two functions. Various

methods may be used to increase stock turnover; similarly the period during which receivables are outstanding may be reduced by improved methods of collection, and by slightly improved discounts.

The ultimate choice of marketing channels is made by individuals at the policy making level of management. Presumably their choice is based on analysis of the factors which have been discussed, plus those which are relevant to the individual firm. It is impossible to say to what extent the final decision may be governed by the personal desires and prejudices of the persons involved. Since marketing involves a series of human relationships, it is difficult to believe that the personal element does not figure to some extent; it is equally difficult to generalize on its effect.

Chapter 4

Marketing Functions

Regardless of the distribution channel a manufacturer uses, certain marketing functions must be performed before his goods reach the ultimate buyer. If the marketing channel is long, these functions tend to be divided among the various elements of the channel which specialize in performing specific tasks: the storage function, for example, may be delegated to a specialist - the public warehouse - rather than to the jobber, although storage is usually thought of as part of the jobber's responsibility. When the manufacturer attempts to determine his costs of distribution in detail, it is essential that he know the price paid for the performance of each of these functions as presently organized for him. It is only in this way that a valid comparison of costs may be made between alternate channels of distribution. Costs which are usually considered as "extras" or "overhead" by the agency performing them are the most difficult to evaluate. Referring again to the wholesaler, it is usually necessary for him to maintain a "broken package room", where goods received in cartons of one or two dozen from the manufacturer may be divided into half or quarter dozens to fill retailers' orders. The cost of providing this service may not be known to him, and it is even less likely that the producer whose goods he handles can know what outlays are

involved. Yet should this producer elect to by-pass the wholesaler, he must provide a location where small quantities of his merchandise may be assembled, if he expects to retain the business of retailers who buy in smaller quantities than those usually shipped. Many public warehouses provide such a service at extra cost; or the manufacturer may establish his own depot from which deliveries may be made. Thus the producer may discover that the expenses involved in providing such a service will be higher for him than for his wholesaler.

The question, then, becomes one of determining how, and by whom, the various functions discussed below may be performed most efficiently. Until marketing costs are known with the same degree of precision that manufacturing costs are figured, the producer must be satisfied with intelligent estimates; while the general cost relationship between marketing channels may be indicated in this way, an area of error remains in the calculation of costs for specific functions.

1. Buying

In general, buying may be said to involve the selection of kinds of goods, sources from which these goods may be obtained, and the quantity of goods which will be ordered. It was indicated in Chapter 2 that candy is produced thruout the United States, that preferences for different kinds of

goods vary with the district being considered, and that no one district produces as much as it needs of each kind of goods. The wholesaler has various advantages over the average retailer, because he is a specialist in the buying field. He is acquainted with the kinds of candy on the market, and the sources of supply. This would be the case even if he made no effort to contact manufacturers, because they come to him with their product. Wholesalers handle about half of all the candy sold, and thus constitute the first line of approach for a majority of manufacturers. A further advantage of wholesalers in buying is that they have the facilities for handling the clerical and routine work involved. They are in a position to maintain more complete records, to follow-up on purchases made than is the average retailer. In addition, the wholesaler usually buys in quantities large enough to warrant quantity discounts, which would not be available to the retailer.

The factors mentioned above which operate to the advantage of the wholesaler in buying are, of course, the same ones which limit the degree to which the average retailer will be able to buy directly from suppliers. He may sometimes buy from a cash-carry jobber at lower prices than those quoted by the full service wholesaler, whether he can afford to do so or not. It is at precisely this point where an analysis of buying costs needs to be made, to determine whether buying in this way results in economies. Purchases

made on a cash-carry basis should carry their portion of expense, including transportation costs to and from the place of sale, and more important, charges for the proprietor's time while he is away from the store.

Large independent stores are in much the same position as the jobber, or the chains, with respect to buying. Department stores, super-markets, large drug and variety stores transact a sufficient volume of business to warrant specialization in purchasing, and usually make contact directly with the manufacturer. Voluntary and co-operative chains are able to supply similar buying specialization for their members.

Hand-to-mouth buying may be expected to increase as more retailers and jobbers attempt to increase their rate of turnover. Not only does increased turnover mean that less capital is required to maintain a given amount of stock, but a high rate helps to ensure fresh goods being available at all times. One may justifiably question the extent to which the wholesaler may follow the practice, and still perform part of the storage function which historically has been his. If this is to be all but eliminated, then the producer may be justified in his contention that the jobber should operate on a smaller margin. Ultimately the effects of a program of short term buying back up to the manufacturer who must either perform tne storage function himself, or adjust his production and buying so that he can fill current

requirements quickly. There are at least three basic factors which argue for a continuance of short term buying: increased competition among producers as the number of producers grows, and their efficiency increases; improved transportation facilities, particularly in the field of trucking; fear of falling prices in the period following the present high level of economic activity.

2. Advertising and Selling

In the previous chapter, it was indicated that the choice of marketing channels should be determined mainly by considerations of the ultimate consumer, and that the marketing program should be conceived as "pulling thru" from the consumer end of the channel. Selling and advertising techniques would have a similar aim. Jobbers and their salesmen are coming to realize that the best interests of retailers and wholesalers are served when the retailer buys only as much candy as he can reasonably expect to sell within a given length of time. High pressure selling by the jobber may result in a loss of good will of the retailer, unsold goods being returned, or simply less frequent orders. The present effort is now being directed toward more effective selling on the part of jobbers, which will include better merchandising and service. Thus the jobber's salesman is encouraged to supply information and ideas which will help the retailer sell more candy.

The low retail price of much candy leaves only a small margin for advertising. By the time a five-cent bar bears the costs of production - labor, raw materials, overhead - and selling, there is little if anything which may be allowed for advertising outlays. There are a few bars developing very high volume which can stand the expense of national advertising because of the wide consumer acceptance which has been built up. Normally this is not possible for low cost items, which must depend on point-of-sale appeal, together with whatever promotion may be had thru the jobber of retailer.

Thus there is considerable emphasis on packaging, since the item must be as nearly self-selling as possible. The use of mass displays was one of the earliest techniques in the selling of candy, and remains to the present as one of the best ways to whet the consumer's appetite. For the low cost item, point-of-sale appeal coincides with the wide-spread use of self-service distribution. Little or no selling can be expected in the stores of variety chains and food chains, in the supermarkets, large drug or department stores. Here the product competes directly with similar goods on the same display rack, and the consumer is the final arbiter. There is every reason to believe that self-service operation will continue at its present level. Even if this were not the case, few retailers will be found who spend much sales effort on a five or ten cent item.

Package goods, particularly those selling for more than a doller per pound, have a larger margin where advertising expense may be covered, and are more widely advertised. The principles of display, however, are as important for this class of goods as for the less expensive. One Chicago manufacturer, who operates a chain of retail stores, has developed a type of display which is almost as much of a distinguishing characteristic of the goods as is the trade mark. In passing, it should be noted that manufacturer-retailers are much more common in the package goods line than in others, and thus are in a position to carry out their own ideas for selling and display. Typically, producers of other classes of candy do not operate their own stores, and thus must compete with a wide variety of products for space in the retailer's window or on his counter. One manufacturer of five cent specialty goods has for years concentrated on perhaps the best location in the average store: next to the cash register. The effort expended to maintain this position against all comers seems to have been rewarded: not only does the firm conduct a large volume of business at considerable profit, but it is the exception to find a retail store where the product is not displayed in its usual place.

3. Transportation

The problems connected with transportation and handling of candy were noted in the last chapter, where the

physical characteristics of candy and their effect on the choice of marketing channels was discussed. As is the case with advertising and selling, those goods with the largest margin may be shipped by the more rapid and costly methods. Any class of candy should be shipped by the quickest method at hand, and during some seasons, should be refrigerated while en route. While this is desirable, large quantities of candy must move by freight because it is less expensive. At the same time, there are relatively few instances of carload shipments. The insistence of retailers and wholesalers to follow principles of short term buying operates against carload shipments, since the policy involves frequent small shipments as against more economical quantities. A possible solution may be found in the use of pool-car shipments by several producers in the same area. To a certain extent, the advantages of refrigerated rail transportation may be had in the use of "chilled" cars, without the expense connected with refrigeration. Such cars are those which have been used to transport highly perishable produce, such as fruit, vegetables, or meat, and at the end of a run remain cool. If such a car is promptly re-loaded, the contents will remain at a substantially lower temperature than would be the case in an ordinary freight car.

4. Storage

The storage function becomes increasingly important as the marketing channel lengthens. When a producer sells his candy thru his own stores, the problems of storage are reduced to a minimum, and are completely under the producer's control. If a producer sells thru jobbers, however, his goods may be stored at his factory pending shipments, they may be stored by the jobber until sold to retailers, and finally the retailer will store them until finally sold to the consumer. Intermediate storage may occur between the producer and jobber due to re-routing of freight by the carrier.

Generally speaking, either the producer or a public warehouse is best equipped to provide storage of the kind required for candy. As in transportation, refrigeration is frequently needed; storage coolers are maintained at about 50 degrees. Storage facilities should also be sanitary, even 'tho the goods stored will be packed in shipping cartons. At the same time, a fairly low humidity should be maintained to help preserve freshness.

The entire period between the time when candy is produced and when it is consumed is taken up either by transportation or storage. Transportation may be likened to mobile storage, and the problems connected with this marketing function have been discussed. Since the remainder of the period is concerned with regular storage, the manufacturer is interested in determining how he may avail himself of

desirable facilities at the least expense. In the last analysis, it is in his best interest to see that his goods arrive at their destination quickly, and in fresh condition. He then desires to take what steps are necessary to control the transportation and storage functions so that this end is achieved.

In line with the modern use of specialized agencies, the producer may wish to employ a specialist in storage - the public warehouse. Such a warehouse may offer better storage facilities than he can provide; cost of insurance on goods so stored may be less than would be expended were they held in his own factory; space at a warehouse may be expanded or contracted to meet changing conditions; banks will frequently make loans on warehouse receipts, whereas they are less likely to do so when the goods are located in the debtor's own warehouse or factory. From a marketing standpoint, the use of public warehouses increases the possibilities of making carload shipments to the warehouse, at which point the goods may be divided and forwarded to various outlets in the locality. If a manufacturer is selling directly to retailers, he may use a public warehouse to serve those in a given area. An example of such practice may be found in the activities of a large New York City warehouse which handles the distribution of three nationally known concerns for that area. Shipments may be made to retailers, or goods may be picked up by them at the warehouse; stocks are maintained for the use of

salesmen who service other retailers in the district. Since the warehouse keeps records showing what disposition is made of all goods received, the manufacturer knows exactly where his product is going. Similar information would be difficult, if not impossible to obtain, were distribution accomplished thru jobbers in the New York area.

5. Financing

In common with the remainder of the mercantile system, the financing of the candy industry, and the distribution of candy, is accomplished largely on credit. As is normally the case, such credit is supplied partially by banks, by the manufacturers, and by the jobbers. Terms are usually set on a thirty day basis by manufacturers, and on a ninety day basis by wholesalers. In the event that a producer desired to sell directly to retailers, he would have to be in a position to undertake the financing function, which presumably had been supplied by the jobber. As a result, his extension of credit would need to cover a period three times as long. If the firm were already operating on a minimum capital outlay, depending on a high rate of turnover in its receivables, such a step would be impossible without additional financing. Similarly, a manufacturer selling direct might find it desirable to distribute thru jobbers so that the capital required to carry his accounts receivable might be reduced.

6. Risking

As with financing, the element of risk is shared among the various parties to the marketing operation. Where the distribution channel is short, risk for the entire operation will be assumed by the producer. As more stages of distribution are required, the risk involved for each will be reduced. Much of the risk encountered in marketing involves the solvency of firms to whom credit has been extended. Following the general theory of specialization, it would seem that the jobber is in the best position to evaluate the risk presented by each of the firms selling candy in his territory. Lacking positive evidence to the contrary, however, the assertion still seems reasonable that the jobber extends more credit than is sometimes justified by the condition of the retailer. The competitive aspect, is, of course, important: the jobber knows that if he does not extend credit to a given retailer, his competitor will probably do so. The general difficulties of determining the amount of credit to be extended are even greater when the manufacturer attempts to sell the retailer directly. While it may be contended that the jobber is too close to the situation to make a balanced decision, at least he is in possession of the facts, and can assess local conditions bearing on the question. Such an analysis is costly, time consuming, and not always accurate when made from a distance, as would be the

case where a producer desired information about a particular retailer who wished to buy directly.

The annual bill for returned goods varies between one percent and one and one-half percent of sales for the entire industry. While this factor is not large on a percentage basis, it closely approximates the average profits of many firms in the field. This risk is usually assumed by the producer, and is passed back to him from other stages of distribution. Since no manufacturer wants defective goods on the market, he normally authorizes their return.

7. Market Research

The usefulness of market research increases as the producer gains in volume, and distributes on a national scale. For him, market research is a necessary link to relay consumer attitudes and trends, as well as to help avoid costly mistakes of judgement. The manufacturer who sells locally, or thru his own stores is closer to the consumer, and can adjust to his desires; he likewise can experiment on a small scale when innovations are being considered, and thus reduce the opportunity for costly error.

A certain amount of research has been done by a large New England manufacturer who distributes nationally, and the type of work may be briefly noted. Initially, it was desired to pre-test certain flavors to be used in a new bar.

This was done by making small samples of various flavors as they might be used in the bar, and recording consumer reaction to each of the five. Data were collected by means of individual interviews, and by group tests. In each case, the respondents were asked to indicate their variations in preference among the five flavors. The group tests were repeated until a certain degree of uniformity in response was observed.

Once the flavor needed had been determined, test candy bars were produced, and these were put on sale in stores of selected retailers. The amounts of sales were carefully noted, as compared with competitive goods, and one product of the firm which had been on the market for some time, which was used as a control bar. The number of first sales and repeat sales was particularly noted. At the end of the trial period, which lasted about six weeks, data were available which guided the firm in making subsequent refinements, both in the bar itself, and in the packaging. Subsequent tests indicated that considerable consumer acceptance might be expected. These hopes were justified when sales for the first year ran about ten percent ahead of the forecast.

Chapter 5

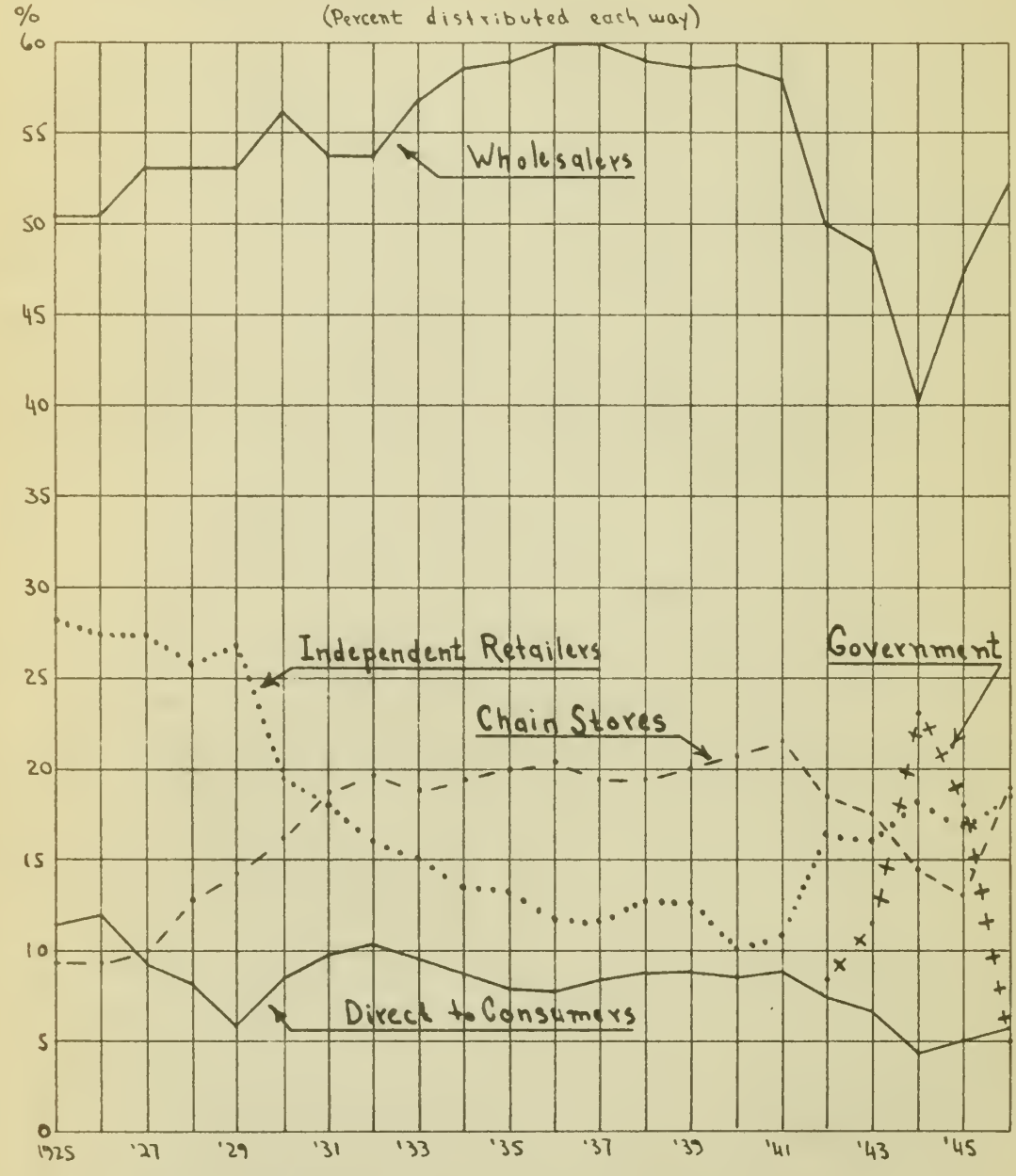
Trends in Marketing Channels - Marketing Institutions

Thruout the previous two chapters an attempt has been made to indicate the various ways in which candy may be marketed, some of the criteria for selecting the best marketing channel, together with a discussion of marketing functions which must be performed if candy is to reach the ultimate consumer. While many situations could be cited where firms actually conduct their marketing in the ways described, most of the material in these two chapters was necessarily of a theoretical nature.

The aim of the present chapter, and the following, will be to analyze the methods of marketing which are now in use. This will be done by discussing first the role of the major marketing institutions at present employed: the wholesaler, chains, the independent retailer, direct selling to consumers. The percentage of candy marketed in these ways will be shown, together with the relationships between these channels which have been continually changing over the past twenty years. In each case where a definite trend is noticeable, an attempt will be made to determine what factors were important in its development, and to evaluate their characteristics which would argue for a continuance or re-

DISTRIBUTION CHANNELS OF CANDY MANUFACTURERS: 1925 THRU 1946[a]

[a] BASED ON DOLLAR SALES OF MANUFACTURER–WHOLESALERS (INCLUDING CHOCOLATE MANUFACTURERS) AND MANUFACTURER-RETAILERS.



Source: Department of Commerce
Bureau of Foreign and Domestic Commerce

Fig. 10

versal of the trend during the next few years.

The following chapter will present an analysis of marketing channels by types of goods which are distributed thru these channels. A similar investigation of trendswill be followed in each case.

The percentage of candy distributed thru each of the regular marketing channels has been reported to the Department of Commerce yearly by producers since 1925. The results were published each year in the annual survey "Confectionery Sales and Distribution", and were completely revised for inclusion in the 1946 survey; these data are presented graphically in Fig. 10.

In any analysis including data for the period of World War II, it seems desirable to consider the changes which took place as being temporary for the most part. Even if permanent structural changes in the marketing system do result from the wartime economy, it is still too early to verify an hypothesis statistically. It may be contended that the changed relationships brought about by large scale, direct Government buying from 1942 thru 1946 indicate those channels most likely to lose part of their share of candy distribution. Under normal economic conditions, however, it would be virtually impossible for any marketing institution or channel to capture more than 22 percent of the industry's volume in the space of three years.

1. Wholesaling

The wholesaler is by far the most important element in the marketing of candy, as is shown in Fig. 10. The distinct upward trend in the percentage of candy distributed thru wholesalers between the years 1925 and 1931 was accompanied by downward trends in the percentage handled by independent retailers, and that sold thru the manufacturer's own store. At the same time, there was a decided increase in the percentage of candy distributed thru the chains. It is probable, 'tho not demonstrable statistically, that the jobbers increased their share of the product at the expense of those producers selling thru their own store. In this same connection, it seems reasonable to contend that firms previously selling directly to independent retailers, rather than those selling thru their own stores, would elect to distribute thru the chains.

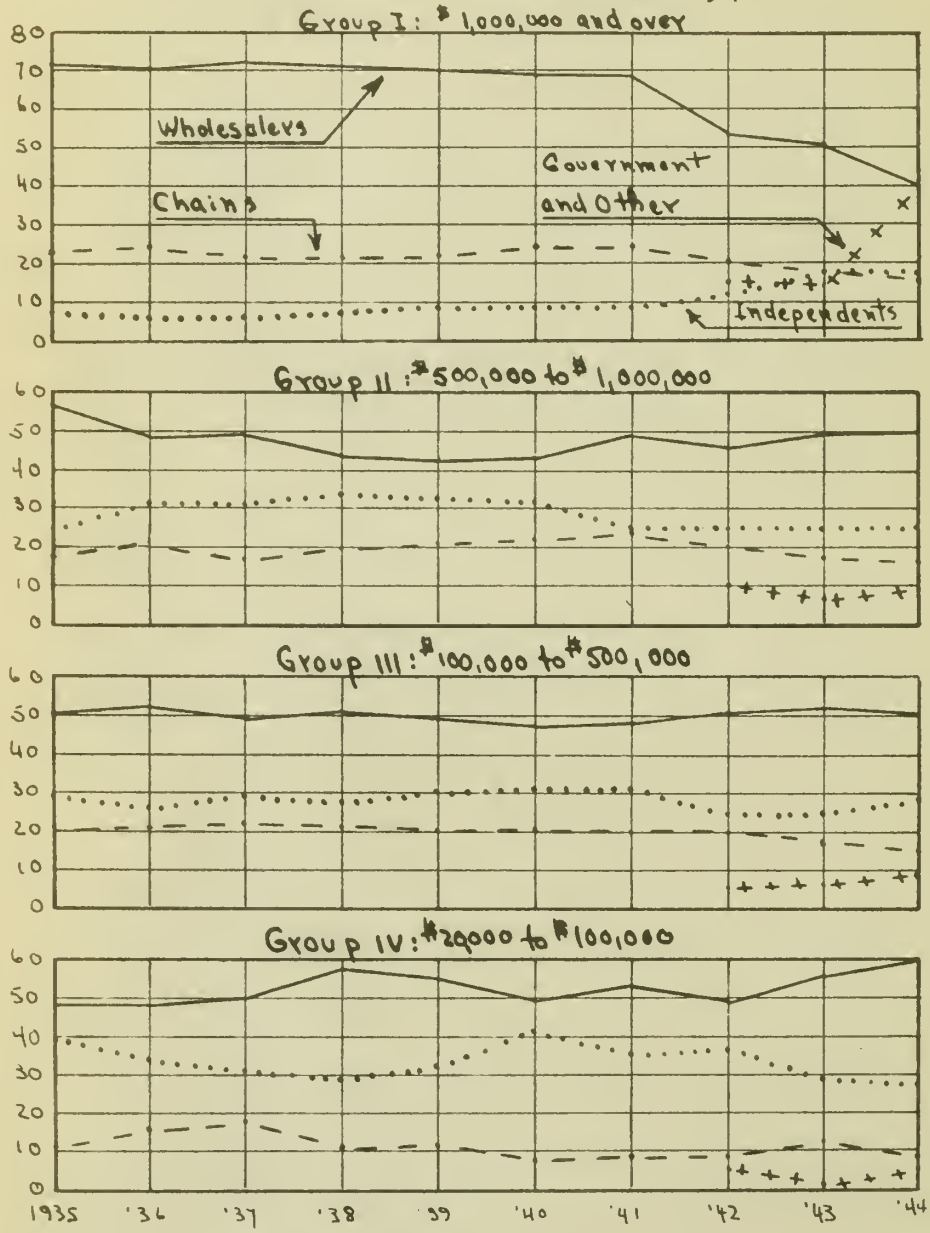
In the period from 1933 to 1937, the wholesaler's share of candy business continued to rise. Since the percentage distributed thru chains, and thru the manufacturer's own store, remain relatively constant during tnese years, it is apparent that the growth in jobbing volume was obtained at tbe expense of distribution to independent stores.

It is evident that the percentage of candy distributed thru jobbers declined during the period of World War II, in about the same degree as Government buying increased. Most of this buying was concentrated in the hands

DISTRIBUTION CHANNELS BY SIZES OF FIRMS[1]: 1935 THRU 1944

[1] MANUFACTURER - WHOLESALERS ONLY

(Percent distributed each way)



Source: Department of Commerce
Bureau of Foreign and Domestic Commerce

Fig. 11

of a relatively small number of large firms, who sold direct to the procuring agency. Since the jobbers handled the largest part of candy distribution, it was inevitable that they should be the most affected. It should also be noted that the rise in percentage handled by jobbers coincides with reduced government buying.

Apparently these changes in volume handled by jobbers are not related to fluctuations in the business cycle. While it may be argued that, for reasons of marketing economy, more firms sold their products thru jobbers during the depression of the early 1930's, this contention would not be valid in explaining the rising trend for jobbers during the 1920's, nor for the falling trend from 1937 thru 1941.

Fig. 11 emphasizes the importance of wholesaling as a channel of distribution, showing how this method is used by various sizes of firms within the industry. While the jobber markets approximately 50 percent of the output of firms having an annual volume of less than a million dollars, he is even more important for the class of firms having a volume of over a million, and handles about 70 percent of their output.

The prewar trends shown in Fig. 11, taken with the trends of firms in the various sales size groups as shown in Fig. 4, give one indication of the future of jobbing in the candy industry. For example, the decreasing

trend of jobber distribution by firms in the million-dollar-and-over group, coupled with the decided trend toward concentration of sales in this group (as shown in Fig. 4) would indicate that the jobber is losing his best supplier. Similarly, an increase in percentage of goods distributed directly to independents may be observed for this same sales-size group; it has previously been noted that financial strength is one of the normal requirements for direct marketing, a condition which may explain the latter situation. It is to be expected that the firms in the million-dollar-and- over group will continue to account for a high proportion of total candy sales, even 'tho the number of firms fluctuates somewhat.

Firms in the sales-size groups of $500,000 to $1,000,000, while increasing in number, are decreasing in volume of sales. Thus the downward trend of distribution thru jobbers shown in Fig. 11 is serious from two aspects: not only are these firms distributing less thru jobbers, but their total volume of products is decreasing. In passing, it may be observed that these firms are selling a larger part of their output thru chains, and independent retailers.

In only one group, that having sales of less than $100,000 per year, does distribution thru jobbers seem to be increasing. However, Fig. 4 indicates that while the number of firms in this group is constant, sales are declining. The peak in 1938 may have some significance in

connection with the general business cycle. It is possible that firms in this group, finding themselves hampered by lack of capital during the recession in 1938, turned to the jobber as an inexpensive outlet for their goods.

While the above remarks outline some of the changes in marketing structure which operate against the jobber in maintaining his present large share of candy distribution, there is no implication that he is on the way out, at least at a very rapid rate. For one thing, in the case of firms having a volume of business more than a million dollars yearly, the trend from jobbers, and increased selling to independents does not seem to be rapid. Whatever trends are away from wholesaling for the remainder of the industry are to an extent off-set by the fact that these firms have a relatively small proportion of sales. While the jobbers may not market as large a proportion of candy during the post-war period as they did pre-war, it is safe to say that the ratio will be nearly as large.

This situation will probably obtain as long as general economic activity is high. Recessions are typically the periods when costs are examined carefully, and in all probability marketing costs will be much more exhaustively analysed than at any time before. If the jobber is truly effective as a marketing agent, and performs the necessary functions at the least cost to the manufacturer, he may expect to maintain his present superior position. If this

is not the case, he will lose ground to other agencies, who can give the manufacturer better distribution, or equivalent distribution at less cost.

2. Chains

It will be seen (Fig. 10) that the chains increased their share of candy distribution 10 percent in the period from 1925 thru 1932. Thereafter, the percentage of volume handled was relatively constant until Governmental buying began in 1942. At this point, their share of candy distribution declined, as was the case with wholesalers. It should be noted, however, that the decline in percentage distributed thru chains was not as rapid as that of the jobbers, and also that the lowest point was reached in 1945, rather than in 1944, which was the case for the jobbers. The trend thru 1941 roughly parallels that of general chain store development with one important exception: chain store distribution reached its peak in 1933, when 25 percent of all retail sales were made by chains. By 1939, this figure had decreased to 21.7 percent. Candy distribution thru chains did not reach a high in 1933, nor was a decline in evidence from that point to 1939.

The term "chains" as used here includes grocery, drug, and variety chains. The published statistics do not segregate the amount of candy distributed thru each of these types, except for the year 1946. While the distribution

pattern for this year retained some of the dislocations imposed by large Government purchases during the War period, military buying accounted for only 5 percent of the candy sold (Fig. 10). Thus the percentage of candy distributed thru the various types of chains may be taken to indicate the relative importance of each at the outset of the post-war period:

Grocery chains	26.8 percent
Drug chains	17.9 percent
Variety chains	40.3 percent
All other chains	15.0 percent
Total	100.0 percent *

The importance of each of the above types of chains in the distribution of various kinds of candy is shown graphically at the close of Chapter 6. Further reference to Fig. 10 indicates that in 1946, the chains handled 19 percent of the candy sold.

Reference to Fig.11 reveals that chains are the second most important marketing channel for firms having a volume of business of over a million dollars annually, the percentage so distributed being quite constant, and somewhat above the percentage of total candy volume marketed thru the

* U. S. Department of Commerce, Bureau of Foreign and Domestic Commerce, Confectionery Sales and Distirbution - 1946, page 51.

chains. Various causes affecting this situation may be briefly cited: since the goods desired by chains are largely those in the "self-selling" category, nationally known and advertised brands are likely to be stocked; buying for chains is usually conducted from a central office, and thus there is a tendency to concentrate large purchases in the hands of fewer suppliers, a situation which would favor the large candy manufacturers; it is quite possible that the large producers are able to offer better service and discounts, than are the smaller firms, and so attract chain store accounts.

In general, the same factors which render marketing thru chains desirable from the viewpoint of large producers, make the relationship less satisfactory for those manufacturers having a volume of business less than a million dollars yearly. Fig. 11 shows that as the sales size group becomes smaller, the importance of chains as a distributive channel is decreased.

It is generally agreed that the chains have reached a point of stabilization, due to the operation of a number of factors which limit their continued growth. It is, then, probable that the percentage of candy distributed in this way will not increase markedly in the next few years, nor is there any reason to expect a decrease.

3. Independent Retailers

The decline in percentage of candy marketed directly to the independent retailer is shown in Fig. 10, and has been discussed in connection with the rise of wholesaling earlier in this chapter. It is interesting to note that sales thru independents increased during World War II, although there were declines in the percentage of goods handled by other channels. In view of the restricted supply of candy during this period, it is likely that producers came to sell more of their product locally, in an effort to cut marketing expenses. The independent retailer was then the logical outlet for a larger percentage of goods.

The independent retailer is second in importance to the jobber for all firms having less than a million dollars in sales yearly. While there is considerable fluctuation in the percentage of goods so distributed from year to year, as indicated in Fig. 11, the general trend seems stable. There is a definite inverse relationship between the percentage of goods marketed thru jobbers and independents, particularly with respect to firms having sales of less than a million dollars yearly. Since many of these producers sell most of their product locally, it is quite possible that the jobber does not offer as great an advantage for them as he does for the large manufacturer with national distribution. Consequently, the producer would be inclined to sell his

goods thru either jobber or independent retailer which ever was the more satisfactory at the moment, while continuing to sell a constant amount to the chains. Such arrangements would be less feasible for the large producer, who would be faced with the necessity of maintaining a distributive organization on a nation-wide basis.

It is doubtful whether the same percentage of candy will be marketed thru independents as was the case during the 1920's, or even if the increased percentage realized during World War II can be maintained. Some expansion may take place as a result of large scale retailing, particularly in the drug and grocery lines. The super-market type of store, whether restricted to groceries, or including a much wider line, has had wide acceptance. The increase in this type of selling during the 1930's, interrupted by the War, may be expected to continue, for a time at least. Stores of this type normally buy in sufficient volume to warrant direct contact with the producer. The department store, another large volume purchaser who normally buys directly from the manufacturer, does not seem to have the same possibilities for expansion. Both types of outlets are being enlarged and renovated in the post-war period, but the number of new units in the super-market field is considerably greater than in the department store field. The large capital outlay required for department store operation, together with the difficulty of selecting satisfactory sites, increase the hazards

of entering this field. The development of department store selling seems to have reached its peak in terms of number of units, whereas in the super-market field this is not the case.

4. Direct Selling to Consumers

By far the large majority of sales of candy directly to consumers are made from the stores of the producer. Mail order selling of candy scarcely accounts for one percent of sales, since the product is not well adapted to this type of distribution. Firms selling directly to the consumer may be divided into the so-called "candy kitchen" type of operation, where production and retailing is carried on in the same building, and those firms operating a chain of retail stores. Fig. 10 indicates that this type of distribution accounts for between 8 and 10 percent of sales, and was relatively stable thruout the 1930's, and decreased during World War II. Such firms were placed in a difficult position by the rationing of sugar, and other materials shortages during the War. It is unlikely that many of them received contracts to supply candy to the Government, and thus become eligible for increased sugar rations; at the same time, it was almost impossible to maintain volume by supplementing their regular line with outside purchases, since few producers were able to add new customers during the period.

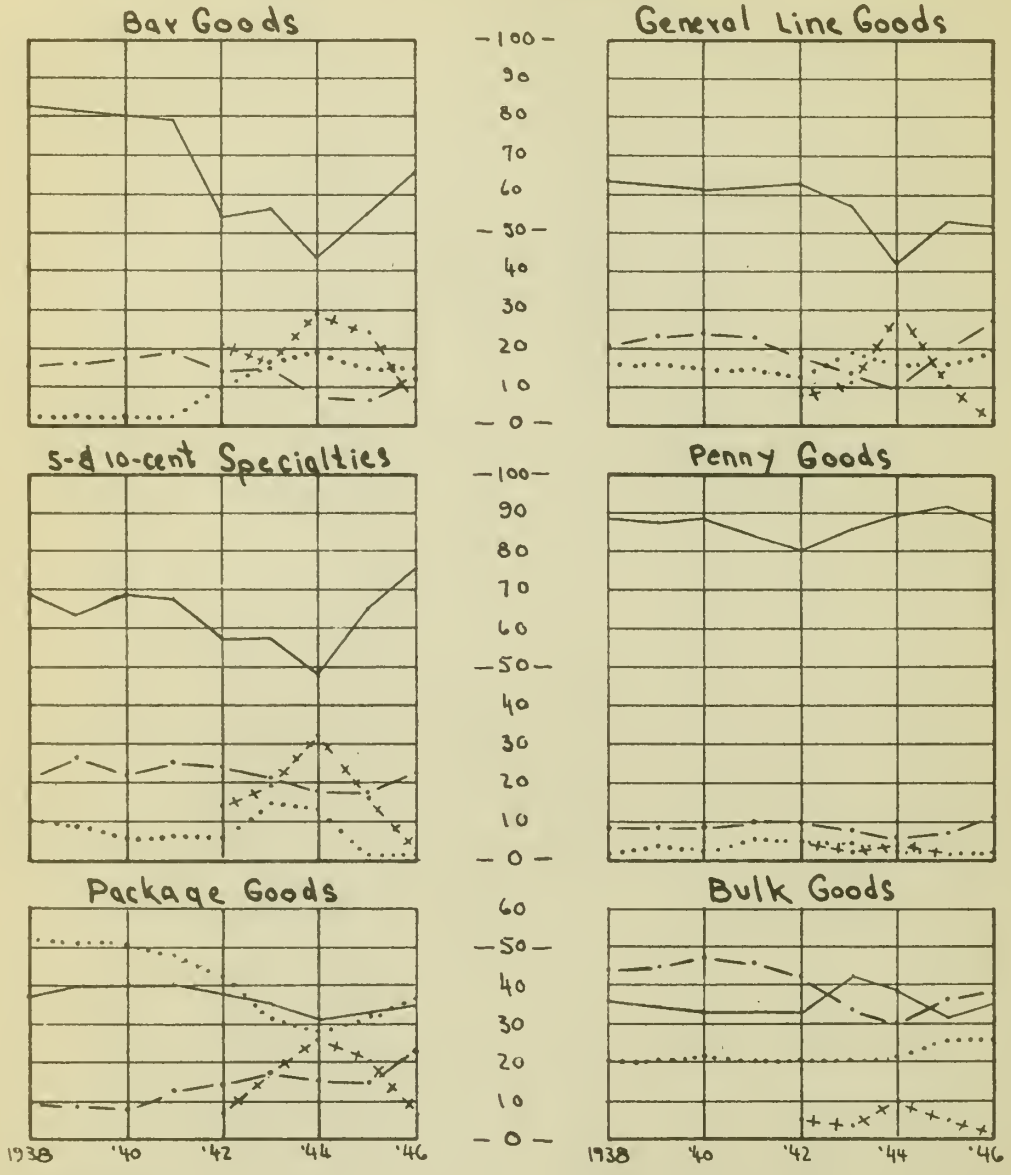
Package goods, which represent the principal line produced by manufacturer-retailers, have traditionally accounted for about 20 percent of candy sales, as is shown in Fig. 14. The demand for this type of candy seems to be well established, there being small variation from year to year. Under these circumstances, it may be assumed that the percentage of candy distributed in this way will return to its pre-war level, although it is unlikely that the channel will become increasingly important.

It is possible that some increase in distribution directly to consumers may arise thru the operation by large producers of their own stores. It has been pointed out that the concentration of sales among firms having a volume of over a million dollars yearly is quite pronounced. These companies would be the logical ones to initiate plans to operate their own stores, since they have the financial strength required, and the managerial ability. Various motives would prompt such action: the desire to maintain closer contact with the consuming public; the desire for additional profit inherent in retail operation; utility of such stores to test consumer reactions to new products, sales and advertising policies.

DISTRIBUTION CHANNELS BY KIND OF GOODS - A: 1938 THRU 1946

MANUFACTURER-WHOLESALERS ONLY.

(Percent distributed each way)



Source: Department of Commerce
Bureau of Foreign and Domestic Commerce

Fig. 12

Chapter 6

Trends in Marketing Channels - Products

As pointed out at the beginning of the last chapter, attention is here directed to a discussion of marketing channels used for the distribution of various kinds of candy. The classifications are those used by the Department of Commerce in their annual distribution studies of the industry, and have been reproduced at the beginning of Chapter 2.

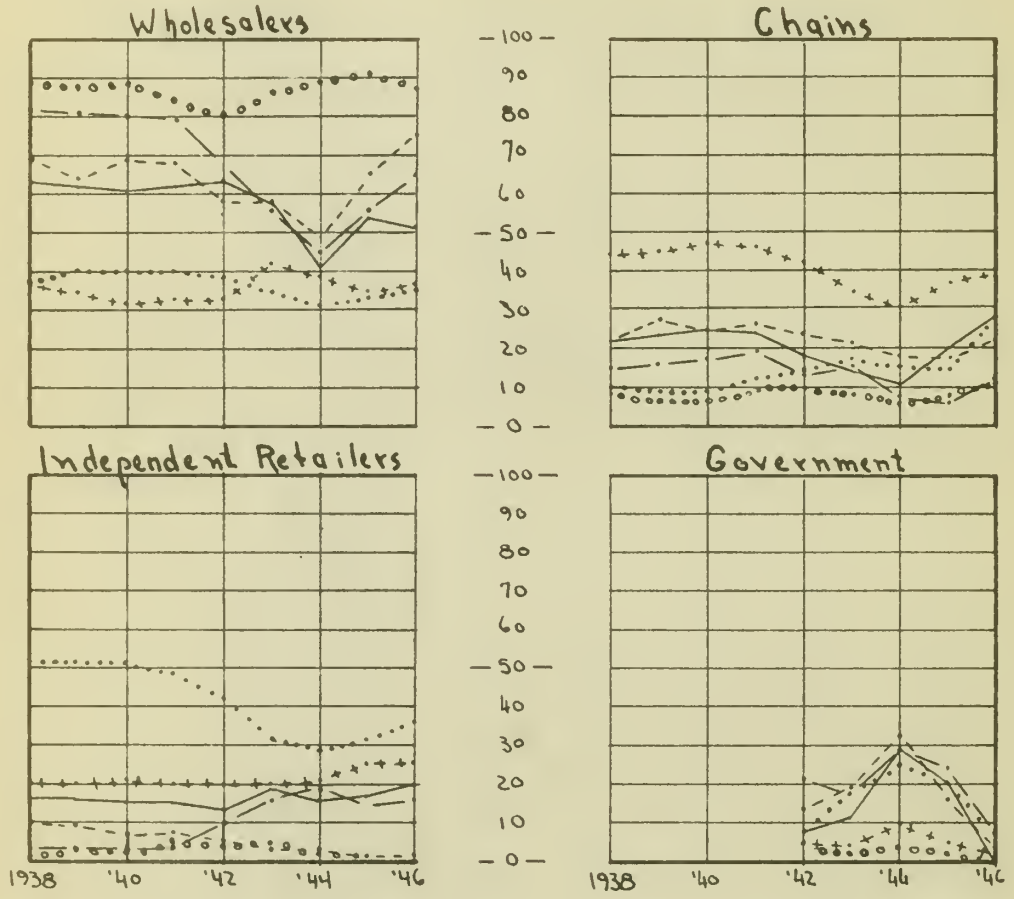
It is unfortunate that no data are available prior to 1938 showing the amounts of various kinds of candy distributed thru recognized channels. Statistically speaking, any attempt to evaluate trends over such a short period (1938 - 1948) is open to criticism. This is particularly true in view of the dislocations in the marketing structure of candy occasioned by Government buying during World War II.

At the same time, it would seem even more unwise to ignore the facts bearing on the situation as it actually existed. At least the data show relative prewar and post war activity in various channels, and the movements taking place during the business revival following the 1938 slump. Figs. 12 and 13 present the same data in different ways: Fig. 12 emphasizes the kindsof goods being distributed, and shows how much was sold thru the various channels. In

DISTRIBUTION CHANNELS BY KIND OF GOODS - B: 1938 THRU 1946

MANUFACTURER-WHOLESALERS ONLY

(Percent distributed each way)



General line goods ———

Bar goods ·—·—·

5-&10-cent specialties·------

Package goods ·····

Bulk goods + + + +

Penny goods ooooo

Source: Department of Commerce
Bureau of Foreign and Domestic Commerce

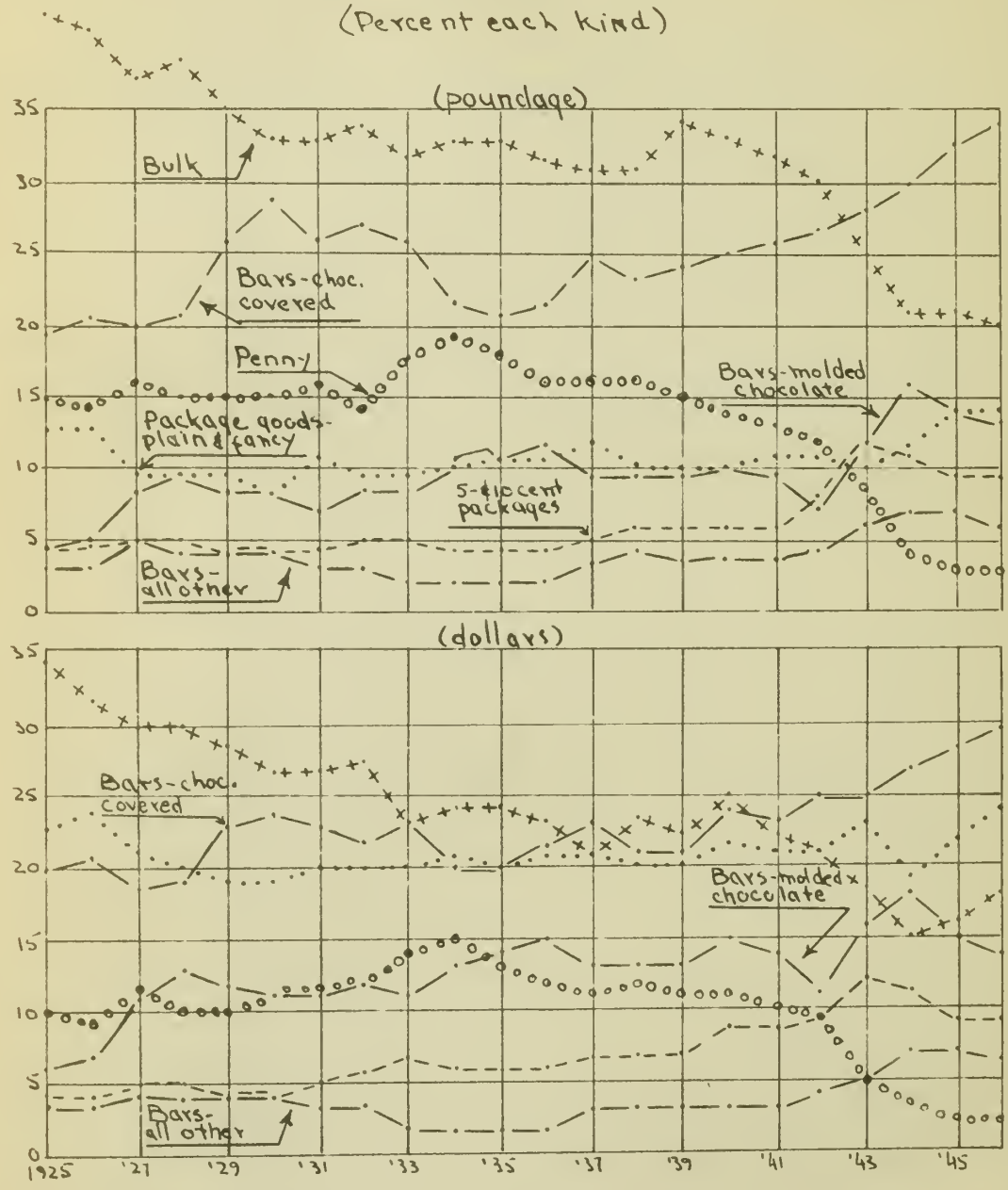
Fig. 13

connection with this chart, it should be noted that the classification "Other" habitually represented less than 0.1 percent, with the exception of the War years; thus the curve shown actually indicates Government buying. Fig. 13 calls attention to the marketing channel, and shows the percentage of goods distributed in each way.

Both charts should be read in conjunction with Fig. 14, which shows the composition of candy production. The chart is based on a percentage distribution; thus a total of 100 percent will result when the individual percentages for different kinds in a given year are added. Fortunately, this information has been collected since the first annual survey made by the Department of Commerce, and covers a sufficiently long period so that definite trends are evident. An investigation of the position and movement of the curve based on poundage, and that on value, will give an idea of the relative prices of various kinds of candy. To cite an obvious case, package goods account for about 10 percent of production by poundage, yet 20 percent by value; oppositely, penny goods account for something less than 20 percent by poundage, and only 10 percent by value. Similar comparisons may be made between other types; 5- and 10-cent specialties account for an almost identical share of production, on a poundage or value basis.

BREAKDOWN OF CANDY SALES BY KIND OF GOODS: 1925 THRU 1946

SHOWING PERCENTAGE OF EACH KIND PRODUCED, BASED ON SALES IN POUNDS AND DOLLARS



Source: Department of Commerce
Bureau of Foreign and Dommestic Commerce

Fig. 14

1. General Line

An inquiry into the marketing channels used by general line houses is perhaps the least profitable of the major types. The number of firms within the category fluctuates considerably, since by definition, these concerns do not specialize on any one product to such an extent that they may be classified primarily as producers of that line of goods. It is interesting to note that the distribution pattern used by these firms closely resembles that of the industry in general, as indicated in Fig. 10.

The decided rise in distribution thru chains since 1944 -- more rapid than for any other classification of goods -- may be explained on at least two bases: first, the chains may find it convenient to buy a relatively wider selection of goods from fewer firms than if they bought from specialty houses. In the second place, general line houses may be more responsive to requests for special items for chain store sale than are specialty houses. Typically, the specialty house manufactures a narrow line, and because of extensive mechanization, is not adapted to the production of special orders. A third reason for distribution of general line products thru chains may be found in the size of firms making such goods. Since these producers do not normally operate at high volume, as do the specialty manufacturers, it may be that distribution thru chains is the most economical method open to them. Fig. 15 indicates the importance of the

variety chain in the distribution of products of general line houses. Thus the term "chain" as used above may be interpreted generally as "variety chain".

2. Bar Goods

Of the various types of products shown in Fig. 14, bar goods have had the most consistent upward trend; this is particularly true of molded chocolate bars, and chocolate covered bars. Firms specializing in production of bars are among the largest in the industry, and seem to be taking a progressively larger slice of the total market. With this in mind, the decided increase in sales direct to independents shown in Fig. 12 may be significant: not only has the percentage of bar goods sold thru independents increased, but the percentage of bar goods in the total market has also increased.

While a definite increase in sales direct to independents has been noted, total sales thru this channel are much smaller than those thru wholesalers, who took more than 65 percent of 1946 volume. Although the wholesaler did not regain his pre-war share of bar goods business, it is unlikely that a rising trend in sales to independents constitutes a significant threat. Of the various types of candy, it is probable that none needs wider distribution than bar goods. While the increased strength of leading firms in this field may simplify the problems of selling direct, the jobber will

still continue to be the agency thru which extensive distribution can be effected. Large manufacturers of bar goods in some cases have advertised on a nation-wide basis, a policy which, of course, simplifies selling thru wholesalers.

3. 5- and 10-cent Specialties

The distribution pattern for this class of goods is unique in that a larger percentage was marketed thru jobbers in 1946 than in any year previous for which there is data. As was the case in the two preceding kinds of goods, the jobber is by far the most important marketing agent. This situation would be expected for much the same reasons as were outlined above with regard to distribution of bar goods thru the same channel. In addition, the wholesaler would be a logical outlet for firms having a highly seasonal business, which is particularly affected by holiday trade. It was pointed out in Chapter 1 that the entire industry exhibits seasonal fluctuations of a definite nature. Sales of specialty producers are most affected, since their goods are designed for specific occasions, rather than for consumption thruout the year. Under these circumstances, specialty manufacturers would look to the jobber or chain store to market their output, rather than attempt the selling task themselves.

4. Package Goods

This category accounts for about 10 percent of the industry's production by weight, and 20 percent by value. Prior to the War, package goods were marketed principally direct to independent retailers. In this respect, the distribution of package goods differs from those types previously discussed, for the wholesaler is not the main marketing channel. During the War, however, the jobber marketed a larger share of package goods than was sold direct to independents, and in 1946, maintained this lead by about 5 percent. In the case of package goods, where sales prices per pound are higher than for any other kind, direct selling may be justified on other grounds than those discussed previously with reference to bar goods. Many of the producers distribute on a local or regional basis, and, having a larger margin than those making other kinds of candy, are in a position to direct sales effort more closely. Package goods are less easily shipped than other kinds of candy, and have a shorter shelf-life. Further, in the case of large retailers, such as department stores, there may be a certain amount of package goods produced for private labels, which would be classified as sales direct to retailers.

At the same time, it is important to note that the percentage of goods marketed thru jobbers declined only 5 percent in the fact of strong Government purchases, and an upward trend in distribution thru chains. At least two reasons

would contribute to the desirability of selling thru this channel: first, small firms might find that profits were improved when jobber distribution was employed because of lowered selling expenses, even 'tho goods would have to be sold at a wholesale price. Second, some firms producing package goods advertise on a nation-wide basis, and their goods have wide acceptance; it has been pointed out that the increased margin available to producers of high priced goods makes advertising expenditures possible, and helps to create the demand necessary if jobbers are to undertake the distributive function.

The importance of grocery and drug chains in the distribution of package goods is indicated in Fig. 15; the percentage of package goods marketed in this way has risen from 10 to 20 since 1938. As in the case of distribution thru jobbers, the trend does not seem to have been greatly disturbed by Government purchases during the War. Lately there has been an increase in the sale of package goods in the grocery chains which may continue, at least during the present period of strong economic activity.

5. Bulk Goods

Bulk goods account for about 20 percent of candy production, both on a poundage and value basis. While this is an important part, Fig. 14 indicates that there is a definite downward trend in this category. It will be noted

(Fig. 15) that the chain stores are the most important marketing channel for bulk goods, and that the variety chains account for about three-fourths of this amount. The trend toward self-service would seem to eliminate bulk goods for grocery chains, and to a certain extent, for drug chains. The desire for sanitary handling has become increasingly important in recent years, particularly from the consumer's standpoint, and further discourages large sales of candy in bulk. Many firms producing bulk goods have packaged their product in cellophane bags in order to keep up with this trend. Consequently, the production of "bulk type" candy may not have declined in exactly the amount indicated, as some of it may now be sold by producers who are classified as General Line, or 5- and 10-cent Specialty.

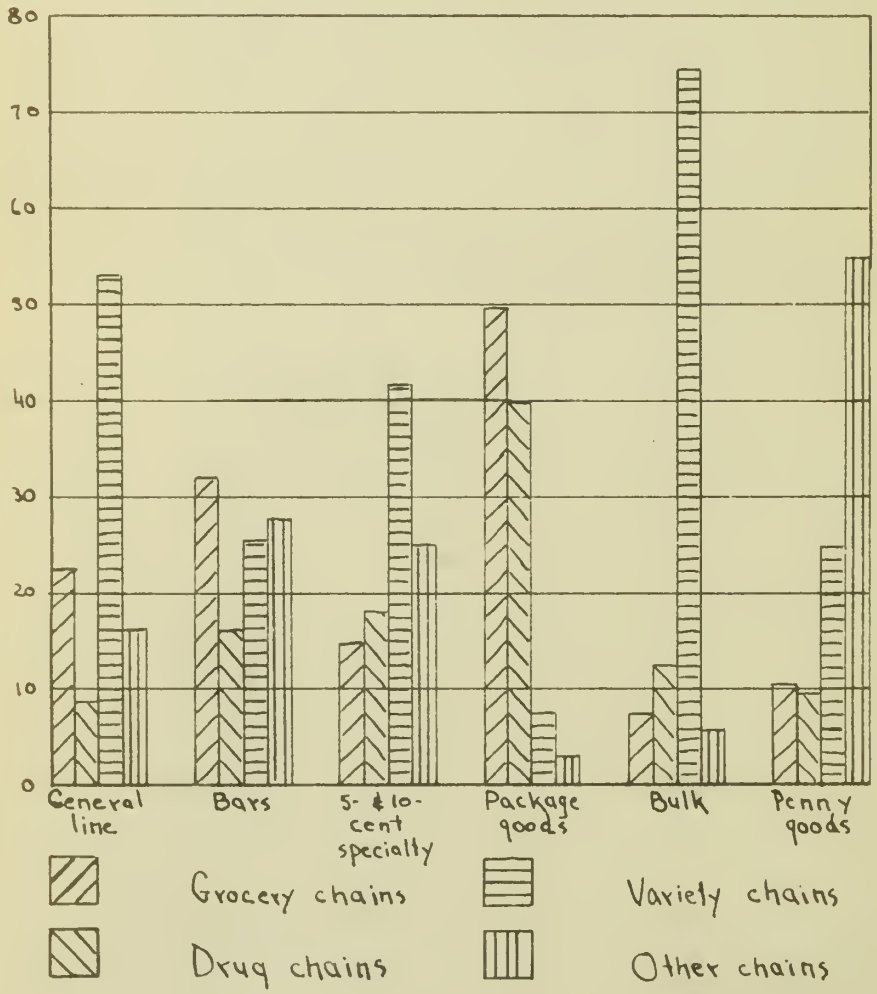
6. Penny Goods

As was the case with bulk goods, penny goods have been declining in importance in recent years, both in point of pounds produced, and value. The difficulties of producing and marketing a piece of candy to retail at one cent have increased considerably as costs have risen in all areas of production and distribution. There seems to be considerable justification in the theory that penny goods have been supplanted for the most part by the nickel bar as an item for children's consumption.

CANDY SALES[1] TO CHAIN STORES BY TYPE OF CHAIN AND KIND OF GOODS: 1946

[1] OF MANUFACTURER-WHOLESALERS ONLY

(Percentage distributed each way)



Source: Department of Commerce
Bureau of Foreign and Domestic Commerce

Fig. 15

Fig. 12 indicates that jobbers handle a larger percentage of penny goods than is the case with any other type. This would be expected, in view of the small margin available for selling expenses. There is small reason to look for any change in the marketing pattern for this class of goods in the near future.

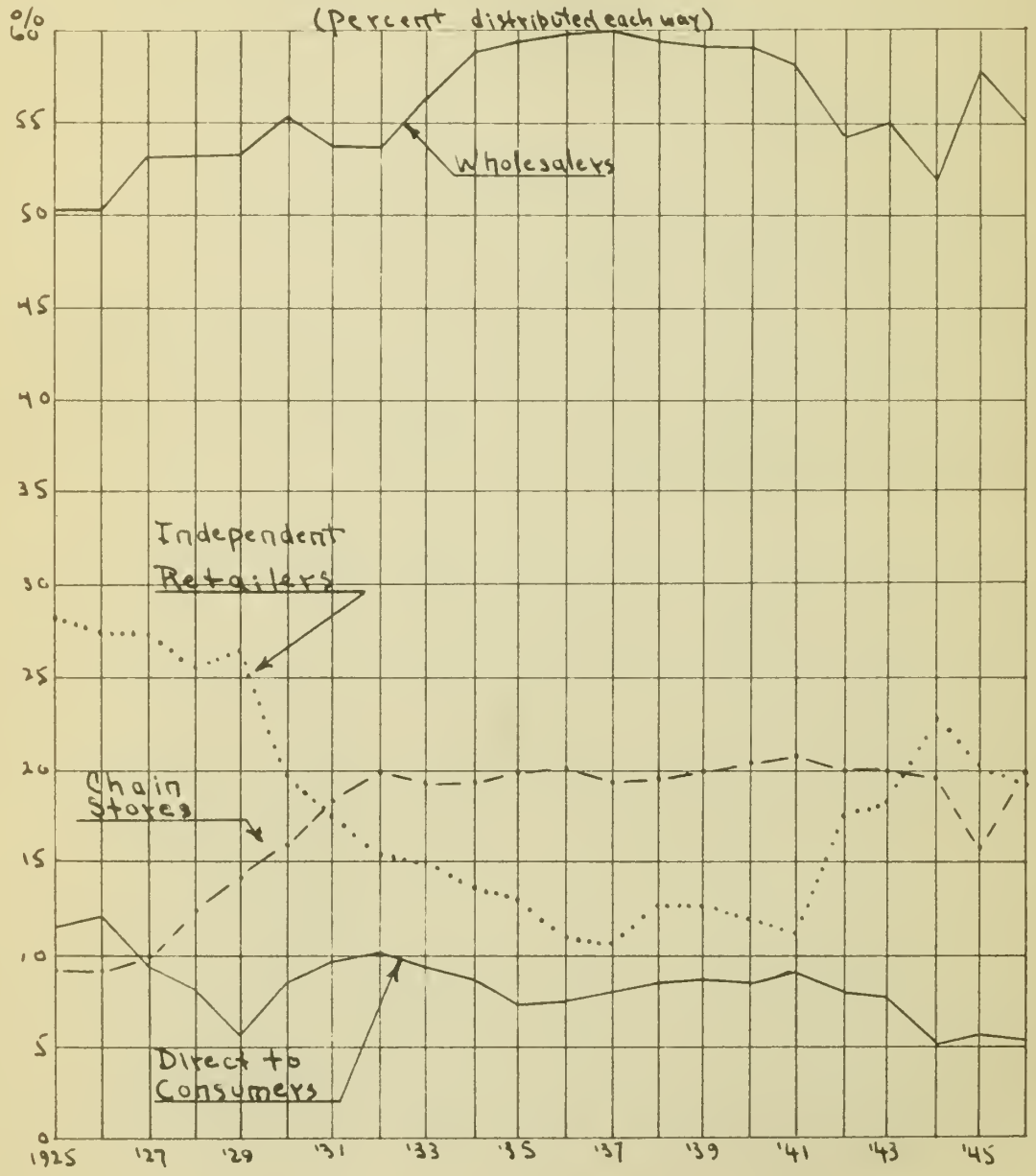
7. Distribution thru Chains

As part of the 1946 report on Confectionery Sales and Distribution, the Department of Commerce made available statistics (Fig. 15) on the distribution of candy thru three different kinds of chains which account for 85 percent of all chain store sales: grocery chains, drug chains, and variety chains. No previous attempt had been made to supply this information, with the exception of the reports made in 1944 and 1945, where grocery chains were treated separately from all other chains. While the 1946 distribution is representative of that year only, it serves to indicate what the probable pattern for a few years may be. The entire 1946 distribution of candy thru all channels was near normal, for the Government purchased only 5 percent of output.

DISTRIBUTION CHANNELS OF CANDY MANUFACTURERS ADJUSTED TO EXCLUDE GOVERNMENT PURCHASES[1]: 1925 THRU 1946

BASED ON DOLLAR SALES OF MANUFACTURER-WHOLESALERS (INCLUDING CHOCOLATE MANUFACTURERS) AND MANUFACTURER-RETAILERS.

[1] FOR THE YEARS 1942 THRU 1946.



Source: Department of Commerce,
Bureau of Foreign and Domestic Commerce.

Fig. 16

Chapter 7

General Conclusions

Thruout this study, it has been frequently urged that data bearing on the use of normal marketing channels during World War II should be accepted at something less than full value, because of the dislocations in the general pattern imposed by large-scale Government buying. In 1944, for example, 23 percent (by value) of all candy produced was purchased in this way. The 23 percent figure is to be considered a minimum, rather than a maximum, for there are no statistics to show how much additional candy was purchased by Government from jobbers; data on Government buying was collected from manufacturers only.

In an effort to indicate what might have been the distribution pattern under peace-time circumstances, the data for 1942 thru 1946 as shown in Fig. 10 have been re-calculated, and the chart in Fig. 16 has been drawn. For each year when Government buying was significant, the percentage so bought was deducted from the entire volume, and percentages were calculated showing the distribution of the remaining portion which moved thru civilian channels. Thus, in 1944, 77 percent of candy produced in that year remained to be distributed by jobbers, chains, directly to independent retailers, and thru manufacturers' own stores. Fig. 16 shows how this

77 percent was marketed in 1944; a similar technique is used for other years during World War II.

The largest variation between actual data, as shown in Fig. 10, and the calculations on which Fig. 16 is based, occurs in the case of the percentage distributed thru wholesalers; such a situation would be expected because of the large percentage distributed thru this channel. The relative importance of wholesalers in the distribution thus appears to be approximately as great as pre-war.

The percentage between the actual and calculated values grows smaller as the percentage of goods distributed thru the various channels decreases. The calculated values relating to distribution thru the producer's own store, for example, are only about one percent higher than those shown in Fig. 10.

Fig. 16 indicates that somewhat more candy may be distributed directly to independent retailers during the post-war period than was the case previously. While it is doubtful that this marketing channel will regain the prominence it enjoyed in the late 1920's, there is some reason to expect that a larger percentage of candy will be distributed in this way than was the case in the late 1930's.

Among the various factors which may lead to an increase in direct marketing, mention has already been made of the probable increase in the number of super-market units.

A further development in retailing involves the emergence of the so-called "convenience store" as drug stores added more non-drug lines. Stores of this type, carrying a very wide line of merchandise, are, of course, as often members of a chain as not. As with super-markets, the individual units are large, and those not associated with a chain buy in sufficiently large quantities to justify direct contact with the manufacturer. There are practical limits to the degree to which additional lines will increase profit; these limits impose a restriction on the size of such stores. Where the line should be drawn is not quite clear; there is at least one such store in Florida which has reached department store proportions, both in terms of physical size, and volume of business transacted.

Many independent retailers are members of voluntary chains; since each member preserves his identity as an independent, sales to these outlets appear as sales to independents direct, even 'tho the requirements for a number of stores may be included in one order. It is estimated, unofficially, that sales, and number of units equal or surpass those of the corporate chains. There is some evidence to indicate that the voluntary movement continues to grow, and as it does, apparent candy sales to independent retailers may be increased thereby.

There is every reason to believe that the jobber will continue to handle as large a percentage of candy during

the next few years as he has in the past. The large share of goods distributed in this way during World War II is indicated in Fig. 16, and so far, nothing has appeared to suggest that the same situation will not obtain during the post-war period, despite the many criticisms made of the jobbing trade by manufacturers.

Recently, the National Confectioners' Association took steps to improve this situation thru the publication of a course in candy salesmanship designed to help the jobber's salesmen do a more effective piece of work in selling candy. Under the auspices of the Association, the methods of leading candy wholesalers were studied, and the results published so that they would be available to the trade generally. A series of ten pamphlets was prepared with the assistance of the U.S. Office of Education under the title Balanced Selling. Each pamphlet presented a step in the sales training course, which could be covered in one class session. In general, the "balance" referred to in the title described the desirable ratio between sales effort as such, and merchandising effort. The main theme was that too much emphasis had been placed on selling goods to the retailer, and not enough on helping the retailer sell candy to the consumer, or on helping him perform his functions as a retailer more effectively. Considerable stress was placed on the idea that good salesmanship involves a responsibility for assisting the retailer in selling the goods he has bought.

In addition to general pointers in sales technique - knowledge of the goods, of mark-ups, not over-selling the retailer, sales records - various specific suggestions were made about ways in which the jobber's salesman could help the retailer promote the sale of candy: suggesting use for advertising material, posters, and counter cards; suggesting ways to move slow items; suggesting candy promotions; setting up displays. All these proposals are to be found in any standard text dealing with the general problem of wholesale selling, but their inclusion in the course may be taken as indicating that the salesmen of many candy jobbers do little along these lines.

The increasing interest shown by many firms in market research may effect some changes in the distribution pattern, particularly when costs are accurately analyzed. While it is impossible to anticipate the specific changes which may take place, it is safe to say that a larger number of producers will be found distributing their goods in a certain way because investigation has shown that the method used is most satisfactory for the type of goods, or market to be reached.

In its analysis of the consumer market for 1948, Fortune Magazine (November, 1947), has this to say:

> "From the activities of this army of entrepreneurs (3,500,000 business enterprises) no tidy list of New Trends emerges. The sales preparations for 1948 include a number of impressive extensions and refinements of prewar marketing techniques. They do not hold the promise of changes as far-reaching as those once set in motion by the

> mail-order house, the chain store, installment buying, or the self-service supermarket. Minor novelties are plentiful..." (page 84)

It is worth noting that all of the marketing changes listed above, with the exception of mail-order selling, are depression phenomena. As such, they may be explained within the frame of Schumpeter's theory of innovations: that a "clustering of innovations" occurs during depressions because then there is the greatest incentive to business to make changes thru which profits can be realized. While examples of such innovations are usually sought in the field of technical or scientific advance, the theory may certainly be extended to cover such innovations as are being discussed here. The general proposition, that methods which are satisfactory during prosperity may not prove adequate in depression, applies equally to a firm's marketing techniques as to its use of plant and equipment.

In view of the present high level of economic activity, it would be surprising to find any indication of an important change in marketing structure; indeed there is none. New metnods and techniques will be the by-products of the next major depression.

Appendix

In this Appendix will be found tables containing the necessary statistical data to support charts located in the body of the thesis. In all cases, charts and tables carry the same numbers, so that cross reference is facilitated. Exceptions to this plan occur where no charts have been drawn, but where information has been tabulated; such tables are designated by a letter suffix after the number: i.e., Table 2-A.

Much of the data appearing herein has been drawn from yearly studies made by the Department of Commerce, Bureau of Foreign and Domestic Commerce, entitled Confectionery Sales and Distribution. Where this source is used, it is cited without the year designation, where it is desirable to avoid repetition; in all cases, statistics shown in the following tables from this source when they relate to a given year will be found in the Department of Commerce study for that year.

TABLE 1: VALUE OF ALL MANUFACTURED GOODS, FOOD, AND CANDY, WITH PERCENTAGE RELATIONSHIPS: 1923 THRU 1946

Year	Sales Value (Billions of dollars)			Percent of All Manufactured Goods	
	All Manufactured Goods	Food Industry	Candy Industry	Food Industry	Candy Industry
(1)	(2)	(3)	(4)	(5)	(6)
1923	60.556	9.275	0.366	15.3	0.60
1925	62.668	10 479	0.379	17.0	0.60
1927	62.718	10.612	0.391	17.2	0.62
1929	70.305	13.279	0.413	18.9	0.56
1930	58.484	11.822	0.368	20.3	0.63
1931	42.759	9.212	0.299	21.6	0.70
1932	30.995	7.142	0.238	23.0	0.77
1933	34.303	7.744	0.226	22.6	0.66
1934	40.131	9 266	0.260	23.1	0.65
1935	46.782	10 491	0 281	22.5	0.60
1936	55.959	11.895	0.381	21.2	0.55
1937	61.459	12 542	0.321	20.4	0.52
1938	50.031	11 615	0.298	23.2	0.60
1939	57.159	11.877	0.308	20.7	0.54
1940	65.755	12.372	0 336	18.8	0.52
1941	92.023	15.767	0.403	17.1	0.44
1942	116.278	20.602	0.490	17.7	0.42
1943	142.020	22.373	0.575	15.7	0.40
1944	148.549	23.715	0.658	16.0	0.44
1945	137.818	23.193	0.620	16.9	0.50
1946	125.904	24.979	0.687	19.9	0.55

Sources: For years 1923, 1925, 1927 - Bureau of the Census, Biennial Census of Manufactures; for years 1929 thru 1946 Survey of Current Business, National Income Supplement, table 29 (applies to columns (2) and (3)).
For column (4), years 1923, 1925, 1927, Census of Manufactures; 1929 thru 1946, Department of Commerce, Bureau of Foreign and Domestic Commerce, Confectionery Sales and Distribution - 1946, p. 7.
For column (5), column (3) divided by column (2).
For column (6), column (4) divided by column (2).

TABLE 2: NUMBER OF WAGE EARNERS EMPLOYED BY ALL INDUSTRIES, FOOD INDUSTRY, AND CANDY INDUSTRY, WITH PERCENTAGE RELATIONSHIPS: 1923 THRU 1947

Year	Wage Earners (in thousands)			Percent of Wage Earners in Manufacturing Ind.		Employment Indexes 1939=100		
	All Manufacturing Ind	Food Industry	Candy Industry	Food	Candy	Mfg.	Food	Candy
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1923	8,778	614	63	7.1	0.73	105	80	NA
1924	7,750	644	NA[1]	8.4	NA	98	78	NA
1925	8,381	666	63	7.9	0.76	101	79	NA
1926	8,140	653	NA	8.0	NA	103	79	NA
1927	8,349	665	63	8.0	0.76	101	79	121
1928	7,975	677	62	8.5	0.77	101	82	126
1929	8,821	737	63	8.4	0.72	107	87	128
1930	7,420	700	57	9.4	0.78	94	85	116
1931	6,506	635	51	9.8	0.79	79	75	104
1932	5,290	570	47	10.8	0.89	67	69	94
1933	6,055	666	51	11.0	0.84	74	79	102
1934	6,860	766	52	11.1	0.76	87	94	104
1935	7,203	797	52	11.1	0.72	92	94	105
1936	7,886	818	51	10.4	0.65	100	99	103
1937	8,569	888	54	10.4	0.63	110	105	108
1938	7,260	818	51	11.2	0.71	92	99	103
1939	7,886	823	50	10.4	0.63	100	100	100
1940	8,450	835	51	9.8	0.61	107	101	103
1941	10,820	900	54	8.8	0.53	130	109	109
1942	11,780	984	56	8.4	0.48	149	119	113
1943	13,350	958	50	7.2	0.38	169	116	111
1944	12,720	975	58	7.7	0.45	161	118	116
1945	11,450	1,010	55	8.7	0.48	145	122	110
1946	11,050	1,040	52	9.2	0.47	140	126	105
1947	12,100	1,130	NA	9.3	NA	153	137	NA

[1] - Data not available.

Sources: For columns (2), (3), and (4): odd numbered years thru 1939 from Bureau of Census, Biennial Census of Manufactures; even numbered years, and 1940 thru 1947 computed from respective employment index, columns (7), (8), (9). For columns (5) & (6): columns (3), (4) respectively divided by col. (2). For cols. (7), (8), Survey of Current Business, from Bureau of Labor Statistics. For col. (9), Department of Commerce, Bureau of Foreign and Domestic Commerce, Confectionery Sales and Distribution-1946.

NOTE: published index have been adjusted to base 1939=100.

TABLE 2-A: NUMBER OF STRIKES, WORKERS INVOLVED, MAN-DAYS LOST, AND EMPLOYMENT IN CANDY INDUSTRY: 1927 THRU 1946

Year (1)	Number of Strikes (2)	Number of Workers Involved (3)	Man-Days Lost (4)	Employees in Candy Industry (5)
1927	0	0	0	63,163
1928	0	0	0	61,900
1929	1	15	75	63,501
1930	0	0	0	57,400
1931	2	1,150	2,450	51,262
1932	0	0	0	46,100
1933	8	1,502	10,490	50,609
1934	2	115	2,265	51,262
1935	NA[L]	NA	NA	52,109
1936	8	589	8,650	50,750
1937	32	8,653	83,851	53,722
1938	15	2,322	32,692	50,750
1939	4	467	13,713	49,740
1940	NA	NA	NA	50,750
1941	NA	NA	NA	53,750
1942	14	4,904	33,961	55,400
1943	6	2,903	23,303	54,800
1944	9	2,823	14,350	57,400
1945	10	3,330	26,900	54,250
1946	15	3,020	61,200	52,109

L - Data not available.

Sources: columns (2), (3), and (4): Department of Labor, Bureau of Labor Statistics, Annual Reports on Work Stoppages.

For column (5), see notes for Table 2, column (4).

TABLE 3: SPECIALIZATION OF CANDY PRODUCERS IN MAJOR LINE OF GOODS: 1936 THRU 1946

(Percent of total output in major line, based on poundage)

Year (1)	Bar Goods (2)	5-&10-Cent Specialties (3)	Package Goods (4)	Bulk Goods (5)	Penny Goods (6)
1936	85.4	NA[L]	79.6	72.1	86.1
1937	88.0	NA	80.6	72.0	78.2
1938	89.8	NA	77.7	72.4	76.4
1939	86.9	NA	79.7	71.4	75.8
1940	86.2	NA	79.2	73.9	72.2
1941	86.5	NA	81.2	67.9	68.3
1942	93.0	91.1	84.6	70.6	71.2
1943	91.5	97.7	87.3	67.4	57.2
1944	91.6	83.7	87.1	62.9	79.0
1945	94.1	89.6	88.3	70.0	85.7
1946	91.5	85.7	89.6	73.2	72.4

L- Data not available.

Source: Department of Commerce, Bureau of Foreign and Domestic Commerce, Confectionery Sales and Distribution, for years indicated.

TABLE 4:
SEASONAL FLUCTUATIONS OF CANDY PRODUCERS' SALES

MONTHLY AVERAGE = 100.
VALUES AS OF THE 15TH OF EACH MONTH.

Month	Manufacturer-wholesalers	Manufacturer-retailers	Chocolate Manufacturers
January	90	62	112
February	95	117	117
March	100	70	100
April	92	145	80
May	89	100	62
June	78	62	40
July	68	65	37
August	83	65	75
September	115	87	175
October	134	87	138
November	136	100	120
December	120	212	95

Source: Department of Commerce, Bureau of Foreign and Domestic Commerce, Confectionery Sales and Distribution - 1946; data adapted.

TABLE 5: CONCENTRATION OF SALES BY CANDY MANUFACTURER-WHOLESALERS BY SALES-SIZE GROUPS: 1925 THRU 1946

Year	Annual Sales Volume									
	$1,000,000 and over		$500,000 to $1,000,000		$100,000 to $500,000		$20,000 to $100,000		Less than $20,000	
	Percent of-		Percent of-		Percent of-		Percent of-		Percent of-	
	Firms	Sales	Firms	Sales	Firms	Sales	Firms	Sales	Firms	Sales
1925	13	60	15	18	45	20	26	3	L'	L'
1926	13	61	14	17	48	20	25	2		
1927	13	62	15	17	46	18	25	2		
1928	14	63	12	15	46	19	27	2		
1929	13	63	14	16	43	18	27	3	3	
1930	11	61	12	15	46	21	26	3	6	
1931	9	61	12	17	44	20	27	3	8	
1932	8	57	9	16	39	22	32	4	12	
1933	10	60	14	19	36	17	30	3	10	
1934	10	64	12	17	34	16	28	3	15	
1935	11	66	12	15	34	15	29	3	13	
1936	15	72	13	13	36	13	25	2	10	
1937	17	74	15	13	34	11	25	2	9	
1938	15	73	13	13	34	12	27	2	11	
1939	18	77	12	11	35	11	24	2	11	
1940	20	78	14	11	33	10	23	2	10	
1941	22	82	15	10	31	7	21	1	10	
1942	24	80	21	12	26	7	20	1	10	
1943	29	85	20	10	27	5	19	1	7	
1944	32	88	18	8	27	4	18	1	4	
1945	28	86	14	7	33	6	21	1	4	
1946	28	86	14	7	33	5	21	1	4	

L' - Where no entry, less than 1%.

Source: Department of Commerce, Bureau of Foreign and Domestic Commerce Confectionery Sales and Distribution.

TABLE 6: CANDY SALES AND FACTORS AFFECTING SALES: 1927 THRU 1946

Year (1)	Sales		Price per pound [1]	Per capita consumption	Wages and Salaries
	Billions of pounds (2)	Millions of dollars (3)	cents (4)	pounds (5)	Billions of dollars (6)
1927	1.733	401	23.3	14.7	NA[2]
1928	1.756	403	22.9	14.7	NA
1929	1.902	413	21.9	15.1	50.165
1930	1.789	368	20.6	14.5	45.894
1931	1.621	299	18.5	13.1	38.886
1932	1.625	238	14.7	13.0	30.248
1933	1.631	226	13.9	13.0	28.825
1934	1.816	260	14.4	14.3	33.520
1935	1.898	281	14.8	14.9	36.508
1936	2.049	308	15.1	16.0	41.754
1937	2.010	321	16.0	15.5	45.948
1938	1.955	298	15.2	15.0	42.812
1939	2.050	308	15.0	15.7	45.745
1940	2.225	336	15.1	16.9	49.587
1941	2.536	403	15.9	19.0	61.708
1942	2.519	490	19.5	18.7	81.681
1943	2.561	575	22.4	19.0	105.537
1944	2.804	658	23.5	20.5	116.944
1945	2.562	620	24.2	18.7	117.551
1946	2.438	687	28.2	17.1	111.113

[1] - Manufacturers' selling price.

[2] - Data not available.

Sources: Columns (2), (3), (4) and (5), Department of Commerce, Bureau of Foreign and Domestic Commerce, Confectionery Sales and Distribution - 1946.

Column (6), Survey of Current Business - National Income Supplement, page 27.

TABLE 8: RELATIVE IMPORTANCE OF MAJOR PRODUCTION AND CONSUMPTION AREAS FOR MARKETING OF CANDY: 1942 AND 1946

1942

Area	Production		Consumption	
	Millions of Pounds	Percent of Total	Millions of Pounds	Percent of Total
Northeast	969	38.5	844	33.4
North Central	1,320	52.4	886	35.2
South	101	4.0	472	18.8
Mountain	18	0.7	98	3.9
Pacific	111	4.4	219	8.7
Totals	2,519	100.0	2,519	100.0

1946

Area	Production		Consumption	
	Millions of Pounds	Percent of Total	Millions of Pounds	Percent of Total
Northeast	695	41.8	827	33.9
North Central	767	46.1	792	32.5
South	101	6.1	485	19.9
Mountain	12	0.7	110	4.5
Pacific	88	5.3	224	9.2
Totals	1,663	100.0	2438	100.0

Note: production and consumption totals for 1942, and consumption total for 1946, are based on sample returns, and have been adjusted upward by Department of Commerce to approximate industry totals. Production total for 1946 represents unadjusted sample returns from 329 manufacturer-wholesalers.

Sources: 1942 data: Bureau of Foreign and Domestic Commerce, U.S. Market for Confectionery (Industrial Series #64), page 7.
1946 data: Bureau of Foreign and Domestic Commerce, Confectionery Sales and Distribution - 1946, pages 16 and 19.

TABLE 8-1: SOURCES OF SUPPLY, AND DESTINATION OF OUTPUT, BY MAJOR MARKETING AREAS: 1942

(by percent)

Consumption Area	Supply Area					
	No. East	No. Cent.	South	Mtn.	Pac.	Total
Northeast	74.3	25.3	0.3	L'	0.1	100
North Central	21.3	77.7	0.6	0.1	0.3	100
South	23.1	57.7	18.7	0.1	0.4	100
Mountain	7.6	59.7	18	15.5	13.4	100
Pacific	16.5	40.5	0.5	0.8	41.7	100

Production Area	Sales Area					
	No. East	No. Cent.	South	Mtn.	Pac.	Total
Northeast	64.6	19.5	11.2	1.0	3.7	100
North Central	16.2	52.1	20.6	4.4	6.7	100
South	3.3	5.5	88.3	1.8	1.1	100
Mountain	L'	2.9	1.1	86.2	9.8	100
Pacific	0.6	2.6	2.0	12.0	82.8	100

L' - Less than 0.1%

Source: Department of Commerce, Bureau of Foreign and Domestic Commerce, U.S. Market for Confectionery (Industrial Series No 64), pages 25 and 27.

TABLE 9: SURPLUS AND DEFICIT AREAS BY KIND OF GOODS: 1942

Kind of Goods	Production within area	Sales within area	Surplus (+) or deficit (-)	Ratio of Surplus or Deficit to production
	(thousands of pounds)			(in percent)
NORTHEAST AREA				
Gen. line	72,816	68,290	+ 4,526	+ 2.3
Bar	183,857	162,070	+ 21,787	+ 3.7
5-&10-¢ Spec.	45,413	27,663	+ 17,750	+ 25.8
Package	80,854	56,330	+ 24,524	+ 22.4
Bulk	95,968	114,626	- 18,658	- 4.6
Penny	96,741	69,062	+ 27,679	+ 20.1
NORTH CENTRAL AREA				
Gen. line	82,730	61,427	+ 21,303	+ 11.2
Bar	372,009	191,574	+ 180,435	+ 29.3
5-&10-¢ Spec.	21,902	23,880	- 1,978	- 2.9
Package	10,656	23,519	- 12,863	- 11.7
Bulk	280,640	198,633	+ 82,007	+ 20.0
Penny	33,425	33,474	- 49	*
SOUTHERN AREA				
Gen. line	25,396	38,871	- 13,475	- 7.0
Bar	13,962	149,758	- 135,796	- 22.8
5-&10-¢ Spec.	1,560	11,809	- 10,249	- 14.9
Package	4,011	13,866	- 9,855	- 9.0
Bulk	11,060	52,099	- 41,039	- 10.0
Penny	5,665	24,761	- 19,096	- 14.0
MOUNTAIN AND PACIFIC AREAS				
Gen. line	13,039	25,394	- 12,355	- 6.4
Bar	27,071	93,497	- 66,426	- 10.1
5-&10-¢ Spec.	0	5,522	- 5,522	- 8.1
Package	13,747	15,552	- 1,805	- 1.7
Bulk	21,862	44,172	- 22,310	- 5.5
Penny	1,252	9,786	- 8,533	- 6.2

Source: Department of Commerce Bureau of Foreign and Domestic Commerce, U.S. Market for Confectionery, (Industrial Series No. 41) page 29.

TABLE 10: DISTRIBUTION CHANNELS OF CANDY MANUFACTURERS: 1925 THRU 1946

(by percent of dollar volume)

Year	Wholesalers	Direct to Retailers		Own Store	Government [1]
		Chains	Independents		
1925	50.4	9.2	28.2	11.5	
1926	50.6	9.3	27.4	12.0	
1927	53.0	10.0	27.5	9.3	
1928	53.0	12.7	25.8	8.3	
1929	53.0	14.1	26.9	5.8	
1930	55.9	15.9	19.6	8.4	
1931	53.1	18.5	19.9	9.7	
1932	53.7	19.7	16.1	10.2	
1933	56.7	18.7	15.1	9.4	
1934	58.6	19.2	13.6	8.5	
1935	58.9	19.9	13.3	7.8	
1936	59.8	20.6	11.8	7.7	
1937	60.9	19.2	11.6	8.2	
1938	59.1	19.3	12.7	8.7	
1939	58.6	20.0	12.6	8.7	
1940	58.8	20.8	12.0	8.3	
1941	58.0	21.4	11.7	8.8	
1942	49.9	18.3	16.2	7.2	8.3
1943	48.6	17.3	15.9	6.5	11.6
1944	40.0	14.6	18.0	4.1	23.1
1945	47.5	12.9	16.6	5.0	17.9
1946	52.1	18.9	18.5	5.4	5.1

NOTE: sales direct to consumers by mail order constitute less than 0.5% of total candy sales in any one year.

[1] - Not reported separately prior to 1942.

Source: Department of Commerce, Bureau of Foreign and Domestic Commerce, Confectionery Sales and Distribution - 1946, page 47.

TABLE 11: DISTRIBUTION CHANNELS BY SIZES OF FIRMS[1] 1935 THRU 1944

[1] - MANUFACTURER-WHOLESALERS ONLY

(Percent distributed each way)

Year	Group I $1,000,000 and over.				Group II $500,000 to $1,000,000				Group III $100,000 to $500,000				Group IV Less than $100,000			
	Whole-salers	Chains	Inde-pendents	Gov't.	Whole-salers	Chains	Inde-pendents	Other [2]	Whole-salers	Chains	Inde-pendents	Gov't.	Whole-salers	Chains	Inde-pendents	Other [3]
1935	71	22	7	[1]	57	18	25	0.6	50	21	29	[1]	48	11	39	2
1936	71	24	6		48	21	31	1.0	52	21	26		48	16	34	2
1937	72	22	6		49	17	31	3.0	49	22	29		50	18	31	1
1938	71	22	7		44	20	33	3.0	51	21	27		58	11	29	2
1939	70	22	8		43	21	32	4.0	49	21	30		54	12	32	2
1940	68	24	8		44	22	31	3.0	47	21	31		49	8	41	3
1941	68	24	8		49	24	25	2.0	48	20	31		54	9	35	3
1942	53	20	12	15	46	20	25	10.0	51	20	24	5	49	9	37	6
1943	51	18	18	14	50	17	26	6.0	52	17	25	6	57	12	29	2
1944	40	16	17	24	40	16	26	9.0	50	15	28	8	60	8	28	5

[1] - Not reported separately prior to 1942.
[2] - Includes 7%, 5%, and 8% to Government for years 1942, 1943, 1944 respectively.
[3] - Includes 3%, 1%, and 4% to Government for years 1942, 1943, 1944 respectively.

Source: Department of Commerce, Bureau of Foreign and Domestic Commerce, Confectionery Sales and Distribution.

TABLE 12: DISTRIBUTION CHANNELS BY KIND OF GOODS: 1938 THRU 1946

MANUFACTURER-WHOLESALERS ONLY

(Percent distributed each way)

Year	Wholesalers						Chains						Independent Retailers						Government [1]					
	Gen. Line	Bar	5-$10 & Spec.	Package	Bulk	Penny	Gen. Line	Bar	5-$10 & Spec.	Package	Bulk	Penny	Gen. Line	Bar	5-$10 & Spec	Package	Bulk	Penny	Gen. Line	Bar	5-$10 & Spec.	Package	Bulk	Penny
1938	63	82	69	38	37	87	21	15	21	10	44	9	16	3	10	52	20	1						
1939	61	81	64	40	35	88	23	16	27	9	45	9	16	3	9	51	20	3						
1940	61	80	69	40	33	89	24	17	24	9	47	9	15	3	6	51	21	2						
1941	62	79	68	40	34	84	23	19	26	12	46	10	15	3	7	48	20	6						
1942	63	55	58	38	34	80	18	13	24	14	42	10	13	10	6	42	20	5	7	22	13	7	5	5
1943	57	57	58	35	42	86	13	15	21	17	34	8	19	14	3	31	20	5	11	17	19	17	4	2
1944	41	44	48	31	39	89	10	7	17	16	30	5	16	19	3	28	21	2	29	29	32	26	10	4
1945	53	56	65	33	32	91	20	6	17	15	37	7	17	14	1	32	26	1	10	24	17	20	5	1
1946	51	66	75	35	36	88	28	12	22	22	38	11	20	15	1	36	26	1	1	7	2	7	1	0

[1] - Not reported separately prior to 1942.

Source: Department of Commerce, Bureau of Foreign and Domestic Commerce, Confectionery Sales and Distribution.

TABLE 14: BREAKDOWN OF CANDY SALES BY TYPE OF GOODS: 1925 THRU 1946

(percent of each kind produced)

Year	by poundage							by value						
	Package	Bulk	Bars			5-&10-¢ specialty	Penny	Package	Bulk	Bars			5-&10-¢ Specialty	Penny
			molded choc.	choc covered	all other					molded choc	choc. covered	all other		
1925	12	42	4	19	3	4	15	23	34	6	20	3	4	10
1926	12	41	5	21	3	4	14	24	32	7	21	3	4	9
1927	9	37	8	20	5	5	16	21	30	11	18	4	5	11
1928	9	38	9	21	4	5	15	20	30	13	19	4	5	10
1929	9	35	8	26	4	4	15	19	28	12	23	4	4	10
1930	8	33	8	28	4	4	15	19	26	11	24	4	4	11
1931	11	33	7	26	3	4	16	15	26	11	23	3	5	11
1932	9	34	8	27	3	5	14	20	27	12	22	3	6	12
1933	9	32	8	26	2	5	18	20	23	11	23	2	7	14
1934	10	33	10	22	2	4	19	21	24	13	20	2	6	15
1935	11	33	11	21	2	4	18	20	24	14	20	2	6	13
1936	11	32	12	22	2	4	16	21	23	15	22	2	6	12
1937	12	31	9	25	3	5	16	21	21	13	23	3	7	11
1938	10	34	9	23	4	6	16	20	23	13	21	3	7	12
1939	10	34	9	24	3	6	15	20	22	13	21	3	7	11
1940	10	33	10	25	3	6	14	22	25	15	24	3	8	11
1941	11	32	9	26	3	6	13	21	22	14	23	3	8	10
1942	11	30	7	27	4	8	12	21	21	11	25	4	9	9
1943	10	25	12	28	6	12	8	23	18	16	25	5	12	5
1944	12	21	16	30	7	11	4	19	15	18	27	7	11	3
1945	14	21	14	33	7	9	3	22	16	15	28	7	9	2
1946	14	20	13	34	6	9	3	24	17	14	29	6	9	2

Source: Department of Commerce, Bureau of Foreign and Domestic Commerce, Confectionery Sales and Distribution.

TABLE 15: CANDY SALES TO CHAIN STORES BY TYPE OF CHAIN AND KIND OF GOODS: 1946

(percent distributed each way)

Kind of Goods	Type of chain				Total
	Grocery	Drug	Variety	Other	
General Line	22.3	8.5	53.1	16.1	100
Bars	30.9	15.1	25.7	27.7	100
5-&10-Cent Specialty	14.5	18.4	41.5	25.6	100
Package	49.1	39.8	7.6	3.5	100
Bulk	7.5	12.6	74.0	5.9	100
Penny	10.5	9.7	25.1	54.7	100
Totals	26.8	17.9	40.3	15.0	100

Source: Department of Commerce, Bureau of Foreign and Domestic Commerce, Confectionery Sales and Distribution - 1946, page 51.

TABLE 16: DISTRIBUTION CHANNELS OF CANDY MANUFACTURERS ADJUSTED TO EXCLUDE GOVERNMENT PURCHASES: 1925 THRU 1946

(by percent of dollar volume)

Year	Wholesalers	Direct to retailers		Own Store
		Chains	Independents	
1925	50.4	9.2	28.2	11.5
1926	50.6	9.3	27.4	12.0
1927	53.0	10.0	27.5	9.3
1928	53.0	12.7	25.8	8.3
1929	53.0	14.1	26.9	5.8
1930	55.9	15.9	19.6	8.4
1931	53.7	18.5	17.9	9.7
1932	53.7	19.7	16.1	10.2
1933	54.7	18.7	15.1	9.4
1934	58.6	19.2	13.6	8.5
1935	58.9	19.9	13.3	7.8
1936	59.8	20.6	11.8	7.7
1937	60.9	19.2	11.6	8.2
1938	59.1	19.3	12.7	8.7
1939	58.6	20.0	12.6	8.7
1940	58.8	20.8	12.0	8.3
1941	58.0	21.4	11.7	8.8
1942	54.4	26.0	11.7	7.9
1943	55.0	19.6	18.0	7.4
1944	52.0	19.0	23.4	5.3
1945	57.8	15.7	20.2	6.1
1946	54.9	19.9	19.5	5.7

NOTE: Sales to consumers by mail order constitute less than 0.5% of total sales for any one year.

Source: Department of Commerce, Bureau of Foreign and Domestic Commerce, Confectionery Sales and Distribution, 1946, p. 47.

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Trends in Marketing channels for candy

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